

Artisan Partners Asset Management Inc.  
Form 10-Q  
May 03, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark  
One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
FOR THE TRANSITION PERIOD FROM TO

Commission file number: 001-35826

Artisan Partners Asset Management Inc.  
(Exact name of registrant as specified in its charter)

Delaware 45-0969585  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

875 E. Wisconsin Avenue, Suite 800 53202  
Milwaukee, WI  
(Address of principal executive offices) (Zip Code)

(414) 390-6100  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
(Do not  
check if a  
Non-accelerated filer  smaller Smaller reporting company   
reporting  
company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of outstanding shares of the registrant’s Class A common stock, par value \$0.01 per share, Class B common stock, par value \$0.01 per share, and Class C common stock, par value \$0.01 per share, as of April 28, 2016 were 41,264,039, 17,572,251 and 15,639,101, respectively.

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Except where the context requires otherwise, in this report, references to the "Company", "Artisan", "we", "us" or "our" refer to Artisan Partners Asset Management Inc. ("APAM") and its consolidated subsidiaries, including Artisan Partners Holdings LP ("Artisan Partners Holdings" or "Holdings"). On March 12, 2013, APAM closed its initial public offering and related corporate reorganization. Prior to that date, APAM was a subsidiary of Artisan Partners Holdings.

## Forward-Looking Statements

This report contains, and from time to time our management may make, forward-looking statements within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by forward-looking words such as "may", "might", "will", "should", "expects", "intends", "p", "anticipates", "believes", "estimates", "predicts", "potential" or "continue", the negative of these terms and other comparable terminology. These forward-looking statements are only predictions based on current expectations and projections about future events. These forward-looking statements are subject to a number of risks and uncertainties, and there are important factors that could cause actual results, level of activity, performance, actions or achievements to differ materially from the results, level of activity, performance, actions or achievements expressed or implied by the forward-looking statements. These factors include: the loss of key investment professionals or senior management, adverse market or economic conditions, poor performance of our investment strategies, change in the legislative and regulatory environment in which we operate, operational or technical errors or other damage to our reputation and other factors disclosed in the Company's filings with the Securities and Exchange Commission, including those factors listed under the caption entitled "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on February 25, 2016, which is accessible on the SEC's website at [www.sec.gov](http://www.sec.gov). We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

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Forward-looking statements include, but are not limited to, statements about:

- our anticipated future results of operations;
  - our potential operating performance and efficiency;
  - our expectations with respect to future levels of assets under management, inflows and outflows;
  - our financing plans, cash needs and liquidity position;
  - our intention to pay dividends and our expectations about the amount of those dividends;
  - our expected levels of compensation of our employees;
  - our expectations with respect to future expenses and the level of future expenses;
  - our expected tax rate, and our expectations with respect to deferred tax assets; and
  - our estimates of future amounts payable pursuant to our tax receivable agreements.
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## Part I — Financial Information

## Item 1. Unaudited Consolidated Financial Statements

## ARTISAN PARTNERS ASSET MANAGEMENT INC.

## Unaudited Condensed Consolidated Statements of Financial Condition

(U.S. dollars in thousands, except per share amount)

|  | March 31,<br>2016 | December 31,<br>2015 |
|--|-------------------|----------------------|
| <b>ASSETS</b>  |                   |                      |
| Cash and cash equivalents  | \$217,916         | \$ 166,193           |
| Accounts receivable  | 56,392            | 60,058               |
| Investment securities  | 10,265            | 10,290               |
| Property and equipment, net  | 17,500            | 17,995               |
| Deferred tax assets  | 687,009           | 678,537              |
| Prepaid expenses and other assets  | 13,550            | 12,773               |
| Total assets   | \$1,002,632       | \$ 945,846           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                   |                      |
| Accounts payable, accrued expenses, and other  | \$24,305          | \$ 27,132            |
| Accrued incentive compensation   | 57,070            | 13,748               |
| Borrowings   | 199,355           | 199,314              |
| Amounts payable under tax receivable agreements  | 601,291           | 589,101              |
| Total liabilities  | 882,021           | 829,295              |
| Commitments and contingencies  |                   |                      |
| Common stock   |                   |                      |
| Class A common stock (\$0.01 par value per share, 500,000,000 shares authorized, 41,266,749 and 39,432,605 shares outstanding at March 31, 2016 and December 31, 2015, 413 respectively) |                   | 394                  |
| Class B common stock (\$0.01 par value per share, 200,000,000 shares authorized, 17,572,251 and 18,327,222 shares outstanding at March 31, 2016 and December 31, 2015, 176 respectively) |                   | 183                  |
| Class C common stock (\$0.01 par value per share, 400,000,000 shares authorized, 15,639,101 and 15,649,101 shares outstanding at March 31, 2016 and December 31, 2015, 156 respectively) |                   | 157                  |
| Additional paid-in capital   | 110,029           | 116,448              |
| Retained earnings  | 10,706            | 13,238               |
| Accumulated other comprehensive income (loss)  | (559              | ) (375 )             |
| Total stockholders' equity   | 120,921           | 130,045              |
| Noncontrolling interest - Artisan Partners Holdings  | (310              | ) (13,494 )          |
| Total equity   | 120,611           | 116,551              |
| Total liabilities and equity   | \$1,002,632       | \$ 945,846           |

The accompanying notes are an integral part of the consolidated financial statements.

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## ARTISAN PARTNERS ASSET MANAGEMENT INC.

## Unaudited Consolidated Statements of Operations

(U.S. dollars in thousands, except per share amounts)

|   | For the Three Months<br>Ended March 31, |            |
|---|---|------------|
|   | 2016                                    | 2015       |
| Revenues  |   |            |
| Management fees   | \$ 174,378                              | \$ 203,229 |
| Performance fees  | 151                                     | 346        |
| Total revenues  | \$ 174,529                              | \$ 203,575 |
| Operating Expenses  |   |            |
| Compensation and benefits   |   |            |
| Salaries, incentive compensation and benefits   | 87,480                                  | 98,427     |
| Pre-offering related compensation - share-based awards                                | 7,819                                   | 10,414     |
| Total compensation and benefits   | 95,299                                  | 108,841    |
| Distribution and marketing  | 8,158                                   | 11,662     |
| Occupancy   | 3,181                                   | 3,012      |
| Communication and technology  | 7,217                                   | 5,213      |
| General and administrative  | 5,949                                   | 7,018      |
| Total operating expenses  | 119,804                                 | 135,746    |
| Total operating income  | 54,725                                  | 67,829     |
| Non-operating income (loss)   |   |            |
| Interest expense  | (2,905 )                                | (2,879 )   |
| Net gain (loss) on the tax receivable agreements                                      | —                                       | (6,427 )   |
| Other non-operating income (expense)  | 15                                      | 5          |
| Total non-operating income (loss)   | (2,890 )                                | (9,301 )   |
| Income before income taxes  | 51,835                                  | 58,528     |
| Provision for income taxes  | 11,517                                  | 5,082      |
| Net income before noncontrolling interests  | 40,318                                  | 53,446     |
| Less: Net income attributable to noncontrolling interests - Artisan Partners Holdings | 24,057                                  | 33,932     |
| Net income attributable to Artisan Partners Asset Management Inc.                     | \$ 16,261                               | \$ 19,514  |
| Basic and diluted earnings per share  | \$ 0.35                                 | \$ 0.43    |
| Basic and diluted weighted average number of common shares outstanding                | 36,970,950                              | 32,633,481 |
| Dividends declared per Class A common share   | \$ 1.00                                 | \$ 1.55    |

The accompanying notes are an integral part of the consolidated financial statements.

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## ARTISAN PARTNERS ASSET MANAGEMENT INC.

## Unaudited Consolidated Statements of Comprehensive Income

(U.S. dollars in thousands)

|   | For the Three<br>Months Ended<br>March 31, |          |
|---|--|----------|
|   | 2016                                       | 2015     |
| Net income before noncontrolling interests  | \$40,318                                   | \$53,446 |
| Other comprehensive income (loss), net of tax   |  |          |
| Unrealized gain (loss) on investment securities:  |  |          |
| Unrealized gain (loss) on investment securities, net of tax of \$1 and \$88, respectively | (26 )                                      | 230      |
| Net unrealized gain (loss) on investment securities                                       | (26 )                                      | 230      |
| Foreign currency translation gain (loss)  | (287 )                                     | (422 )   |
| Total other comprehensive income (loss)   | (313 )                                     | (192 )   |
| Comprehensive income  | 40,005                                     | 53,254   |
| Comprehensive income attributable to noncontrolling interests - Artisan Partners Holdings | 23,928                                     | 33,831   |
| Comprehensive income attributable to Artisan Partners Asset Management Inc.               | \$16,077                                   | \$19,423 |

The accompanying notes are an integral part of the consolidated financial statements.

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## ARTISAN PARTNERS ASSET MANAGEMENT INC.

## Unaudited Consolidated Statements of Changes in Stockholders' Equity

(U.S. dollars in thousands)

|   | Class A<br>Common<br>stock | Class B<br>Common<br>stock | Class C<br>Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Non-controlling<br>interest -<br>Artisan<br>Partners<br>Holdings | Total<br>equity |
|---|----------------------------|----------------------------|----------------------------|----------------------------------|----------------------|---|--|-----------------|
| Balance at January 1, 2016  | 394                        | 183                        | 157                        | 116,448                          | 13,238               | (375 )  | (13,494 )  | 116,551         |
| Net income  | —                          | —                          | —                          | —                                | 16,261               | —   | 24,057   | 40,318          |
| Other comprehensive income -<br>foreign currency translation                                | —                          | —                          | —                          | —                                | —                    | (149 )  | (138 )   | (287 )          |
| Other comprehensive income -<br>available for sale investments, net of<br>tax               | —                          | —                          | —                          | —                                | —                    | —   | (25 )  | (25 )           |
| Cumulative impact of changes in<br>ownership of Artisan Partners<br>Holdings LP, net of tax | —                          | —                          | —                          | (286 )                           | —                    | (35 )   | 320  | (1 )            |
| Amortization of equity-based<br>compensation  | —                          | —                          | —                          | 10,837                           | (409 )               | —   | 8,489  | 18,917          |
| Deferred tax assets, net of amounts<br>payable under tax receivable<br>agreements           | —                          | —                          | —                          | 4,402                            | —                    | —   | —  | 4,402           |
| Issuance of Class A common stock,<br>net of issuance costs                                  | —                          | —                          | —                          | (11 )                            | —                    | —   | —  | (11 )           |
| Issuance of restricted stock awards   | 11                         | —                          | —                          | (11 )                            | —                    | —   | —  | —               |
| Employee net share settlement   | —                          | —                          | —                          | (180 )                           | —                    | —   | (154 )   | (334 )          |
| Exchange of subsidiary equity   | 8                          | (7 )                       | (1 )                       | —                                | —                    | —   | —  | —               |
| Distributions   | —                          | —                          | —                          | —                                | —                    | —   | (19,329 )  | (19,329 )       |
| Dividends   | —                          | —                          | —                          | (21,170 )                        | (18,384 )            | —   | (36 )  | (39,590 )       |
| Balance at March 31, 2016   | \$ 413                     | \$ 176                     | \$ 156                     | \$ 110,029                       | \$ 10,706            | \$ (559 )   | \$ (310 )  | \$ 120,611      |
|   | Class A<br>Common<br>stock | Class B<br>Common<br>stock | Class C<br>Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Non-controlling<br>interest -<br>Artisan<br>Partners<br>Holdings | Total<br>equity |
| Balance at January 1, 2015  | \$ 342                     | \$ 215                     | \$ 172                     | \$ 93,524                        | \$ 16,417            | \$ 206  | \$ (3,377 )  | \$ 107,499      |
| Net income  | —                          | —                          | —                          | —                                | 19,514               | —   | 33,932   | 53,446          |
| Other comprehensive income -<br>foreign currency translation                                | —                          | —                          | —                          | —                                | —                    | (214 )  | (208 )   | (422 )          |
| Other comprehensive income -<br>available for sale investments, net of<br>tax               | —                          | —                          | —                          | —                                | —                    | 95  | 169  | 264             |
| Cumulative impact of changes in<br>ownership of Artisan Partners<br>Holdings LP, net of tax | —                          | —                          | —                          | (1,578 )                         | —                    | 28  | 1,516  | (34 )           |
| Amortization of equity-based<br>compensation  | —                          | —                          | —                          | 9,887                            | —                    | —   | 9,718  | 19,605          |
|   | —                          | —                          | —                          | 24,824                           | —                    | —   | —  | 24,824          |



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|   |        |        |        |             |           |        |         |              |
|---|--------|--------|--------|-------------|-----------|--------|---------|--------------|
| Deferred tax assets, net of amounts payable under tax receivable agreements |        |        |        |             |           |        |         |              |
| Issuance of Class A common stock, net of issuance costs                     | 38     | —      | —      | 175,978     | —         | —      | —       | 176,016      |
| Forfeitures   | —      | (4     | ) 3    | 1           | —         | —      | —       | —            |
| Issuance of restricted stock awards   | 6      | —      | —      | (6          | )—        | —      | —       | —            |
| Exchange of subsidiary equity   | 5      | (3     | ) (2   | )—          | —         | —      | —       | —            |
| Purchase of equity and subsidiary equity                                    | —      | (24    | ) (14  | ) (176,520) | —         | —      | —       | (176,558 )   |
| Distributions   | —      | —      | —      | —           | —         | —      | (42,105 | ) (42,105 )  |
| Dividends   | —      | —      | —      | (26,700     | ) (26,373 | )—     | —       | (53,073 )    |
| Balance at March 31, 2015   | \$ 391 | \$ 184 | \$ 159 | \$ 99,410   | \$ 9,558  | \$ 115 | \$ (355 | ) \$ 109,462 |

The accompanying notes are an integral part of the consolidated financial statements.

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## ARTISAN PARTNERS ASSET MANAGEMENT INC.

## Unaudited Consolidated Statements of Cash Flows

(U.S. dollars in thousands)

|   | For the Three Months<br>Ended March 31, |            |
|---|---|------------|
|   | 2016                                    | 2015       |
| Cash flows from operating activities  |   |            |
| Net income before noncontrolling interests  | \$40,318                                | \$53,446   |
| Adjustments to reconcile net income to net cash provided by operating activities:     |   |            |
| Depreciation and amortization   | 1,177                                   | 1,039      |
| Deferred income taxes   | 8,118                                   | (576 )     |
| Net loss on the tax receivable agreements   | —                                       | 6,427      |
| Loss on disposal of property and equipment  | 22                                      | 10         |
| Amortization of debt issuance costs   | 112                                     | 112        |
| Share-based compensation  | 18,917                                  | 19,605     |
| Excess tax benefit on share-based awards  | —                                       | (776 )     |
| Change in assets and liabilities resulting in an increase (decrease) in cash:         |   |            |
| Accounts receivable   | 3,666                                   | 2,950      |
| Prepaid expenses and other assets   | (1,167 )                                | (1,774 )   |
| Accounts payable and accrued expenses   | 41,147                                  | 52,321     |
| Class B liability awards  | (574 )                                  | (3,920 )   |
| Deferred lease obligations  | (49 )                                   | (155 )     |
| Net cash provided by operating activities   | 111,687                                 | 128,709    |
| Cash flows from investing activities  |   |            |
| Acquisition of property and equipment   | (646 )                                  | (587 )     |
| Leasehold improvements  | (65 )                                   | (802 )     |
| Net cash used in investing activities   | (711 )                                  | (1,389 )   |
| Cash flows from financing activities  |   |            |
| Partnership distributions   | (19,329 )                               | (42,105 )  |
| Dividends paid  | (39,590 )                               | (53,073 )  |
| Change in other liabilities   | —                                       | (17 )      |
| Net proceeds from issuance of common stock  | —                                       | 176,558    |
| Payment of costs directly associated with the issuance of Class A common stock        | —                                       | (76 )      |
| Purchase of equity and subsidiary equity  | —                                       | (176,558 ) |
| Taxes paid related to employee net share settlement                                   | (334 )                                  | —          |
| Excess tax benefit on share-based awards  | —                                       | 776        |
| Net cash used in financing activities   | (59,253 )                               | (94,495 )  |
| Net increase (decrease) in cash and cash equivalents                                  | 51,723                                  | 32,825     |
| Cash and cash equivalents   |   |            |
| Beginning of period   | 166,193                                 | 182,284    |
| End of period   | \$217,916                               | \$215,109  |
| Supplementary information   |   |            |
| Noncash activity:   |   |            |
| Establishment of deferred tax assets  | 16,592                                  | 124,887    |
| Establishment of amounts payable under tax receivable agreements                      | 12,190                                  | 100,840    |
| The accompanying notes are an integral part of the consolidated financial statements. |   |            |



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## ARTISAN PARTNERS ASSET MANAGEMENT INC.

## Notes to Unaudited Consolidated Financial Statements

(U.S. currencies in thousands, except per share or per unit amounts and as otherwise indicated)

## Note 1. Nature of Business and Organization

## Nature of Business

Artisan Partners Asset Management Inc. (“APAM” or “Artisan”) is an investment management firm focused on providing high-value added, active investment strategies to sophisticated clients globally. Artisan has seven autonomous investment teams that manage a broad range of U.S., non-U.S. and global investment strategies.

Strategies are offered through multiple investment vehicles to accommodate a broad range of client mandates. Artisan offers its investment management services primarily to institutions and through intermediaries that operate with institutional-like decision-making processes and have long-term investment horizons.

## Organization

On March 12, 2013, APAM completed its initial public offering (the “IPO”). APAM was formed for the purpose of becoming the general partner of Artisan Partners Holdings LP (“Artisan Partners Holdings” or “Holdings”) in connection with the IPO. Holdings is a holding company for the investment management business conducted under the name “Artisan Partners”. The reorganization (“IPO Reorganization”) established the necessary corporate structure to complete the IPO while at the same time preserving the ability of the firm to conduct operations through Holdings and its subsidiaries.

As the sole general partner, APAM controls the business and affairs of Holdings. As a result, APAM consolidates Holdings’ financial statements and records a noncontrolling interest for the equity interests in Holdings held by the limited partners of Holdings. At March 31, 2016, APAM held approximately 55% of the equity ownership interest in Holdings.

Artisan Partners Asset Management has been allocated a part of Artisan Partners Holdings’ net income since March 12, 2013, when it became Holdings’ general partner. APAM and its subsidiaries are hereafter referred to collectively as “Artisan” or the “Company”.

## Holdings Unit Exchanges

During the three months ended March 31, 2016, certain limited partners of Artisan Partners Holdings exchanged common units (along with a corresponding number of shares of Class B or C common stock of APAM) for shares of Class A common stock (the “Holdings Common Unit Exchanges”). The following common units were exchanged for APAM Class A common stock during the three months ended March 31, 2016:

|   | Total<br>Common<br>Units<br>Exchanged | Class A<br>Common<br>Units | Class B<br>Common<br>Units | Class E<br>Common<br>Units |
|---|---------------------------------------|----------------------------|----------------------------|----------------------------|
| Common units exchanged on March 3, 2016 | 764,971                               | —                          | 754,971                    | 10,000                     |

The corresponding shares of APAM Class B and Class C common stock were immediately canceled upon exchange. The Holdings Common Unit Exchanges increased APAM’s equity ownership interest in Holdings and resulted in a combined increase to deferred tax assets of approximately \$14.3 million and an increase in amounts payable under the tax receivable agreements of approximately \$12.2 million.

## Note 2. Summary of Significant Accounting Policies

## Basis of presentation

The accompanying financial statements are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of such consolidated financial statements have been included. Such interim results are not necessarily indicative of full year results.

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial reporting and accordingly they do not include all of the information and

footnotes required in the annual consolidated financial statements and accompanying footnotes. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. As a result, the interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in APAM's latest annual report on Form 10-K.

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The accompanying financial statements were prepared in accordance with U.S. GAAP and related rules and regulations of the SEC. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates or assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from these estimates or assumptions.

### Principles of consolidation

Artisan's policy is to consolidate all subsidiaries or other entities in which it has a controlling financial interest. The consolidation guidance requires an analysis to determine if an entity should be evaluated for consolidation using the voting interest entity ("VOE") model or the variable interest entity ("VIE") model. Under the VOE model, controlling financial interest is generally defined as a majority ownership of voting interests. Under the VIE model, controlling financial interest is defined as the power to direct activities that most significantly impact the economic performance of the entity and the right to receive potentially significant benefits or the obligation to absorb potentially significant losses. The consolidated financial statements include the accounts of APAM and all subsidiaries or other entities in which APAM has a direct or indirect controlling financial interest. All material intercompany balances have been eliminated in consolidation.

Artisan serves as the investment adviser for Artisan Partners Funds, Inc. ("Artisan Funds"), a family of mutual funds registered with the SEC under the Investment Company Act of 1940, and Artisan Partners Global Funds plc ("Artisan Global Funds"), a family of Ireland-based UCITS. Artisan Funds and Artisan Global Funds are corporate entities the business and affairs of which are managed by their respective boards of directors. The shareholders of the funds retain all voting rights, including the right to elect and reelect members of their respective boards of directors. As a result, each of these entities is a VOE and is evaluated for consolidation under the VOE model.

The Company makes initial seed investments in sponsored investment portfolios, including series of Artisan Funds and Artisan Global Funds, at the portfolio's formation, which are made on the same terms as are available to other investors. If the seed investment results in a controlling financial interest, APAM consolidates the fund, and the underlying individual securities are accounted for as trading securities. Seed investments in which the Company does not have a controlling financial interest are classified as available-for-sale investments. As of March 31, 2016, APAM does not have a controlling financial interest in any sponsored investment portfolio or series of Artisan Funds or Artisan Global Funds and therefore does not consolidate these entities.

### Recent accounting pronouncements

#### Accounting standards adopted as of January 1, 2016

In February 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The ASU modified existing consolidation guidance for determining whether certain legal entities should be consolidated. The ASU eliminated the deferral under ASU 2010-10, Consolidation - Amendments for Certain Investment Funds, and, as a result, the Company must apply the new guidance to all entities, including investment companies. The presumption that a general partner controls a limited partnership was eliminated. In addition, fees paid to decision makers that meet certain conditions no longer cause the decision makers to consolidate VIEs, in certain instances. The new guidance was effective on January 1, 2016, and did not impact the Company's consolidated financial statements for the periods presented.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the note liability, rather than presented as an asset. The new guidance was effective on January 1, 2016, and requires a retrospective approach to adoption. At March 31, 2016 and December 31, 2015, the Company had approximately \$0.6 million and \$0.7 million, respectively, of debt issuance costs that met the criteria of this amendment and are now presented as a reduction to Borrowings in the Unaudited Condensed Consolidated Statements of Financial Condition.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718). The ASU is intended to simplify several aspects of the accounting for share-based payment transactions, including income tax consequences, classification on the statement of cash flows, and accounting for the forfeiture of share-based awards. The updated guidance is effective for reporting periods beginning after December 15, 2016. Early adoption is permitted in any interim period; if early adoption is elected, the entity must adopt all of the amendments in the same

reporting period and reflect any adjustments as of the beginning of the fiscal year. The Company adopted the guidance as of January 1, 2016. As part of the guidance, all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) are now recognized as income tax expense or benefit in the income statement. Previously, excess tax benefits were recognized in additional paid-in-capital. The amendment also requires excess tax benefits to be classified along with other income tax cash flows as an operating activity. The amendments related to the recognition of excess tax benefits and presentation of excess tax benefits in the statement of cash flows are applied prospectively as of January 1, 2016.

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ASU 2016-09 also allows entities to elect as an accounting policy either to continue to estimate the total number of awards for which the requisite service period will not be rendered (as previously required) or to account for forfeitures when they occur. The Company has elected to account for forfeitures when they occur, since that approach is expected to better reflect periodic compensation costs. The change in accounting for forfeitures is applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity. As of January 1, 2016, retained earnings decreased by \$0.4 million and additional paid-in-capital increased by \$0.4 million to reflect the change in accounting principle.

## Accounting standards not yet adopted

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which supersedes existing accounting standards for revenue recognition and creates a single framework. The new guidance will be effective on January 1, 2018 with early adoption permitted as of January 1, 2017. The Company is currently evaluating its transition method and the potential impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which requires all equity investments to be measured at fair value with changes in the fair value recognized through net income. ASU 2016-01 will be effective on January 1, 2018 and will result in a cumulative-effect adjustment to the Company's Consolidated Statements of Financial Condition upon adoption. After adoption, the Company's unrealized gains (losses) on available-for-sale investment securities will be recognized through net income, which will be a change from the current treatment of recognition in other comprehensive income (loss).

In February 2016, the FASB issued ASU 2016-02, Leases, which introduces a lessee model that brings most leases on the balance sheet. The new guidance will be effective on January 1, 2019 and will require a modified retrospective approach to adoption. Early adoption is permitted. The Company is currently evaluating the impact of adoption on its consolidated financial statements.

## Note 3. Investment Securities

The disclosures below include details of Artisan's investments.

|                   | Cost     | Unrealized<br>Gains | Unrealized<br>Losses | Fair Value |
|-------------------|----------|---------------------|----------------------|------------|
| March 31, 2016    |          |                     |                      |            |
| Mutual funds      | \$10,069 | \$ 574              | \$ (378 )            | \$ 10,265  |
| December 31, 2015 |          |                     |                      |            |
| Mutual funds      | \$10,069 | \$ 832              | \$ (611 )            | \$ 10,290  |

Artisan's investments in mutual funds consist of investments in shares of Artisan Funds and Artisan Global Funds and are considered to be available-for-sale securities. As a result, unrealized gains (losses) are recorded to other comprehensive income (loss).

As of March 31, 2016 and December 31, 2015, the total fair value of investments in an unrealized loss position was \$4.7 million and \$4.4 million, respectively. The \$378 thousand unrealized losses on available-for-sale securities are considered temporary, based on the severity and duration of the unrealized losses. No impairment losses were recorded on these available-for-sale securities.

## Note 4. Fair Value Measurements

The table below presents information about Artisan's assets and liabilities that are measured at fair value and the valuation techniques Artisan utilized to determine such fair value.

In accordance with ASC 820, fair value is defined as the price that Artisan would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. The following three-tier fair value hierarchy prioritizes the inputs used in measuring fair value:

Level 1 – Observable inputs such as quoted (unadjusted) market prices in active markets for identical securities.

Level 2 – Other significant observable inputs (including but not limited to quoted prices for similar instruments, interest rates, prepayment speeds, credit risk, etc.).

Level 3—Significant unobservable inputs (including Artisan's own assumptions in determining fair value).





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The following provides the hierarchy of inputs used to derive fair value of Artisan's assets and liabilities that are financial instruments as of March 31, 2016 and December 31, 2015:

## Assets and Liabilities at Fair Value

|                  | Total      | Level 1    | Level 2 | Level 3 |
|------------------|------------|------------|---------|---------|
| March 31, 2016   |            |            |         |         |
| Assets           |            |            |         |         |
| Cash equivalents | \$ 114,016 | \$ 114,016 | \$ —    | —       |
| Mutual funds     | 10,265     | 10,265     | —       | —       |

## December 31, 2015

|                  |           |           |      |   |
|------------------|-----------|-----------|------|---|
| Assets           |           |           |      |   |
| Cash equivalents | \$ 49,005 | \$ 49,005 | \$ — | — |
| Mutual funds     | 10,290    | 10,290    | —    | — |

Fair values determined based on Level 1 inputs utilize quoted market prices for identical assets. Level 1 assets generally consist of money market funds, marketable open-end mutual funds and UCITS funds. There were no Level 2 or Level 3 assets or liabilities recorded at fair value as of March 31, 2016 and December 31, 2015.

Artisan's policy is to recognize transfers in and transfers out of the valuation levels as of the beginning of the reporting period. There were no transfers between Level 1, Level 2 or Level 3 securities during the three months ended March 31, 2016 and 2015.

## Note 5. Borrowings

Artisan's borrowings consist of the following as of March 31, 2016 and December 31, 2015:

|                            | Maturity    | Outstanding Balance | Interest Rate Per Annum |
|----------------------------|-------------|---------------------|-------------------------|
| Revolving credit agreement | August 2017 | \$ —                | NA                      |
| Senior notes               |             |                     |                         |
| Series A                   | August 2017 | 60,000              | 4.98 %                  |
| Series B                   | August 2019 | 50,000              | 5.32 %                  |
| Series C                   | August 2022 | 90,000              | 5.82 %                  |
| Total borrowings           |             | \$ 200,000          |                         |

The fair value of borrowings was approximately \$201.6 million as of March 31, 2016. Fair value was determined based on future cash flows, discounted to present value using current market interest rates. The inputs are categorized as Level 2 in the fair value hierarchy, as defined in Note 4, "Fair Value Measurements".

Interest expense incurred on the unsecured notes and revolving credit agreement was \$2.8 million for the three months ended March 31, 2016 and 2015.

As of March 31, 2016, the aggregate maturities of debt obligations, based on their contractual terms, are as follows:

|            |           |
|------------|-----------|
| 2016       | \$—       |
| 2017       | 60,000    |
| 2018       | —         |
| 2019       | 50,000    |
| 2020       | —         |
| Thereafter | 90,000    |
|            | \$200,000 |

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## Note 6. Noncontrolling interest - Holdings

Holdings is the predecessor of APAM for accounting purposes, and its consolidated financial statements are Artisan's historical financial statements for periods prior to March 12, 2013, the date on which APAM became the general partner of Holdings. As of March 31, 2016, APAM held approximately 55% of the equity ownership interests in Holdings.

Net income attributable to noncontrolling interests - Artisan Partners Holdings in the Unaudited Consolidated Statements of Operations represents the portion of earnings attributable to the equity ownership interests in Holdings held by the limited partners of Holdings.

In order to maintain the one-to-one correspondence of the number of Holdings partnership units and APAM common shares, Holdings will issue one GP unit to APAM for each share of Class A common stock APAM issues. During the three months ended March 31, 2016, APAM's equity ownership interest in Holdings increased as a result of the following transactions:

|  | Holdings<br>GP Units | Limited<br>Partnership<br>Units | Total      | APAM<br>Ownership<br>% |   |
|--|----------------------|---------------------------------|------------|------------------------|---|
| As of December 31, 2015                                    | 39,432,605           | 33,976,323                      | 73,408,928 | 54                     | % |
| Issuance of APAM Restricted Shares <sup>(1)</sup>          | 1,082,035            | —                               | 1,082,035  | —                      | % |
| Holdings Common Unit Exchanges                             | 764,971              | (764,971)                       | —          | 1                      | % |
| Restricted Share Award Net Share Settlement <sup>(1)</sup> | (12,862)             | —                               | (12,862)   | —                      | % |
| As of March 31, 2016                                       | 41,266,749           | 33,211,352                      | 74,478,101 | 55                     | % |

<sup>(1)</sup> The impact of the transaction on APAM's ownership percentage was less than 1%.

Since APAM continues to have a controlling interest in Holdings, changes in ownership of Holdings are accounted for as equity transactions. Additional paid-in capital and Noncontrolling interest - Artisan Partners Holdings in the Unaudited Condensed Consolidated Statements of Financial Condition are adjusted to reallocate Holdings' historical equity to reflect the change in APAM's ownership of Holdings.

The reallocation of equity had the following impact on the Consolidated Statements of Financial Condition:

| Statement of Financial Condition                    | For the Three<br>Months Ended<br>March 31, |           |
|---|--|-----------|
|   | 2016                                       | 2015      |
| Additional paid-in capital                          | \$(286)                                    | \$(1,578) |
| Noncontrolling interest - Artisan Partners Holdings | 320  | 1,516     |
| Accumulated other comprehensive income (loss)       | (35)                                       | 28        |
| Deferred tax assets                                 | 1  | 34        |
| Net balance sheet impact                            | —  | —         |

In addition to the reallocation of historical equity, the change in ownership resulted in an increase to deferred tax assets and additional paid in capital of \$2.3 million for the three months ended March 31, 2016 and \$6.3 million for the three months ended March 31, 2015.

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## Note 7. Stockholders' Equity

## APAM - Stockholders' Equity

As of March 31, 2016 and December 31, 2015, APAM had the following authorized and outstanding equity:

|                                     | Authorized  | Outstanding    |                   | Voting Rights <sup>(1)</sup> | Economic Rights |
|-------------------------------------|-------------|----------------|-------------------|------------------------------|-----------------|
|                                     |             | March 31, 2016 | December 31, 2015 |                              |                 |
| Common shares                       |             |                |                   |                              |                 |
| Class A, par value \$0.01 per share | 500,000,000 | 41,266,749     | 39,432,605        | 1 vote per share             | Proportionate   |
| Class B, par value \$0.01 per share | 200,000,000 | 17,572,251     | 18,327,222        | 5 votes per share            | None            |
| Class C, par value \$0.01 per share | 400,000,000 | 15,639,101     | 15,649,101        | 1 vote per share             | None            |

<sup>(1)</sup> The Company's employees to whom Artisan has granted equity have entered into a stockholders agreement with respect to all shares of APAM common stock they have acquired from the Company and any shares they may acquire from the Company in the future, pursuant to which they granted an irrevocable voting proxy to a Stockholders Committee. As of March 31, 2016, Artisan's employees held 3,798,624 restricted shares of Class A common stock subject to the agreement and all 17,572,251 outstanding shares of Class B common stock. APAM is dependent on cash generated by Holdings to fund any dividends. Generally, Holdings will make distributions to all of its partners, including APAM, based on the proportionate ownership each holds in Holdings. APAM will fund dividends to its stockholders from its proportionate share of those distributions after provision for its taxes and other obligations. APAM declared and paid the following dividends per share during the three months ended March 31, 2016 and 2015:

| Type of Dividend | Class of Stock | For the Three Months Ended March 31, 2016 2015 |        |
|------------------|----------------|--|--------|
| Quarterly        | Common Class A | \$0.60   | \$0.60 |
| Special Annual   | Common Class A | \$0.40   | \$0.95 |

APAM issued (canceled) the following shares during the three months ended March 31, 2016:

|   | Total Stock | Class A Common Stock <sup>(1)</sup> | Class B Common Stock | Class C Common Stock |
|---|-------------|-------------------------------------|----------------------|----------------------|
| Balance at December 31, 2015                | 73,408,928  | 39,432,605                          | 18,327,222           | 15,649,101           |
| Holdings Common Unit Exchanges              | —           | 764,971                             | (754,971)            | (10,000)             |
| Restricted Share Award Grants               | 1,082,035   | 1,082,035                           | —                    | —                    |
| Restricted Share Award Net Share Settlement | (12,862)    | (12,862)                            | —                    | —                    |
| Balance at March 31, 2016                   | 74,478,101  | 41,266,749                          | 17,572,251           | 15,639,101           |

<sup>(1)</sup> There were 178,401 and 122,990 restricted stock units outstanding at March 31, 2016 and December 31, 2015, respectively. Restricted stock units are not reflected in the table because they are not considered outstanding or issued stock.

Each Class A, Class B, Class D and Class E common unit of Holdings (together with the corresponding share of Class B or Class C common stock) is exchangeable for one share of Class A common stock. The corresponding shares of Class B and Class C common stock are immediately canceled upon any such exchange.

Upon termination of employment with Artisan, an employee-partner's unvested Class B common units are forfeited. Generally, the employee-partner's vested Class B common units are exchanged for Class E common units; the employee-partner's shares of Class B common stock are canceled; and APAM issues the former employee-partner a number of shares of Class C common stock equal to the former employee-partner's number of Class E common units. Class E common units are exchangeable for Class A common stock subject to the same restrictions and limitations on exchange applicable to the other common units of Holdings.



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## Artisan Partners Holdings - Partners' Equity

Holdings makes distributions of its net income to the holders of its partnership units for income taxes as required under the terms of the partnership agreement and also makes additional distributions under the terms of the partnership agreement. The distributions are recorded in the financial statements on the declaration date, or on the payment date in lieu of a declaration date. Holdings' partnership distributions for the three months ended March 31, 2016 and 2015, were as follows:

|  | For the Three<br>Months Ended<br>March 31, |          |
|--|--|----------|
|  | 2016                                       | 2015     |
| Holdings Partnership Distributions         | \$19,329                                   | \$42,105 |
| Holdings Partnership Distributions to APAM | \$22,433                                   | \$37,265 |
| Total Holdings Partnership Distributions   | \$41,762                                   | \$79,370 |

The portion of these distributions made to all partners are recorded as a reduction to consolidated stockholders' equity, with the exception of the portion of distributions made to APAM, which is eliminated upon consolidation.

## Note 8. Compensation and Benefits

Total compensation and benefits consists of the following:

|  | For the Three<br>Months Ended<br>March 31, |           |
|--|--|-----------|
|  | 2016                                       | 2015      |
| Salaries, incentive compensation and benefits <sup>(1)</sup> | \$77,096                                   | \$89,904  |
| Restricted share-based award compensation expense            | 10,384                                     | 8,523     |
| Total salaries, incentive compensation and benefits          | 87,480                                     | 98,427    |
| Pre-offering related compensation - share-based awards       | 7,819                                      | 10,414    |
| Total compensation and benefits                              | \$95,299                                   | \$108,841 |

<sup>(1)</sup> Excluding restricted share-based award compensation expense

## Incentive compensation

Cash incentive compensation paid to members of Artisan's portfolio management teams and members of its distribution teams is generally based on formulas that are tied directly to revenues. These payments are made in the quarter following the quarter in which the incentive was earned with the exception of fourth quarter payments which are paid in the fourth quarter of the year. Cash incentive compensation paid to most other employees is discretionary and subjectively determined based on individual performance and Artisan's overall results during the applicable year and has historically been paid in the fourth quarter of the year. The cash incentive compensation earned by executive officers for the year ended December 31, 2015, was paid in the three months ended March 31, 2016.

## Restricted share-based awards

Artisan has registered 14,000,000 shares of Class A common stock for issuance under the 2013 Omnibus Incentive Compensation Plan (the "Plan"). Pursuant to the Plan, APAM has granted a combination of restricted stock awards and restricted stock units (collectively referred to as "restricted share-based awards") of Class A common stock to employees. The restricted share-based awards generally vest on a pro rata basis over five years. Certain share-based awards will vest upon a combination of both (1) pro-rata annual time vesting and (2) qualifying retirement (as defined in the award agreements).

Unvested awards are subject to forfeiture upon termination of employment. Grantees receiving the awards are entitled to dividends on unvested and vested shares and units. As of March 31, 2016, 9,234,275 shares of Class A common stock were reserved and available for issuance under the Plan.

During the three months ended March 31, 2016, Artisan granted 1,082,035 restricted stock awards and 20,625 restricted stock units of Class A common stock to employees of the Company. Total compensation expense associated with the 2016 grants is expected to be approximately \$33.6 million. Compensation expense related to the restricted

share-based awards is recognized based on the estimated grant date fair value on a straight-line basis over the requisite service period of the award.

The initial requisite service period is generally five years for all share-based awards. As of January 1, 2016, the Company records the impact of forfeitures when they occur. There were no awards forfeited during the three months ended March 31, 2016.

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The following table summarizes the restricted share-based award activity for the three months ended March 31, 2016:

|                             | Weighted-Average<br>Grant Date Fair<br>Value | Number of<br>Awards |
|-----------------------------|--|---------------------|
| Unvested at January 1, 2016 | \$ 51.58                                     | 2,861,984           |
| Granted                     | \$ 30.51                                     | 1,102,660           |
| Forfeited                   | \$ —   | —                   |
| Vested                      | \$ 48.17                                     | (65,395 )           |
| Unvested at March 31, 2016  | \$ 45.68                                     | 3,899,249           |

Compensation expense recognized related to the restricted share-based awards was \$10.4 million and \$8.5 million for the three months ended March 31, 2016 and 2015, respectively. The unrecognized compensation expense for the unvested awards as of March 31, 2016 was \$145.2 million with a weighted average recognition period of 3.7 years remaining. The initial requisite service period and remaining weighted average recognition period for all types of restricted share-based awards are substantially equivalent.

During the three months ended March 31, 2016, the Company withheld a total of 12,862 restricted shares as a result of net share settlements to satisfy employee tax withholding obligations. The Company paid \$0.3 million in employee tax withholding obligations related to employee share transactions. These net share settlements had the effect of shares repurchased and retired by the Company, as they reduced the number of shares outstanding.

## Pre-offering related compensation - share-based awards

## Historical Class B share-based awards

Holdings historically granted Class B share-based awards to certain employees. These awards vested over a period of five years. Prior to the IPO, all vested Class B awards were subject to mandatory redemption on termination of employment for any reason and were reflected as liabilities measured at fair value; unvested Class B awards were forfeited on termination of employment.

The vested Class B liability awards of a terminated employee were historically redeemed in cash in annual installments, generally over the five years following termination of employment. The change in value of Class B liability awards and distributions to Class B limited partners were treated as compensation expense.

## Historical redemption of Class B awards

Holdings historically redeemed the Class B awards of partners whose employment was terminated. The redemption value of the awards was determined in accordance with the terms of the grant agreement pursuant to which the award was granted. The remaining redemption payment liability for Class B awards of partners whose services to Holdings terminated prior to the IPO was \$5.0 million and \$5.6 million as of March 31, 2016 and December 31, 2015, respectively. Payments of \$0.5 million and \$3.9 million were made for the three months ended March 31, 2016 and 2015, respectively.

## Modification of Class B share-based awards

As a part of the IPO Reorganization, the Class B grant agreements were amended to eliminate the cash redemption feature. The amendment was considered a modification under ASC 718 and the Class B awards have been classified as equity awards since such modification. Compensation expense is recorded for unvested Class B awards on a straight-line basis over the remaining vesting period.

The following table summarizes the activity related to unvested Class B awards for the three months ended March 31, 2016:

|  | Weighted-Average<br>Grant Date Fair<br>Value | Number of<br>Class B<br>Awards |
|--|--|--------------------------------|
| Unvested Class B awards at January 1, 2016 | \$ 30.00                                     | 2,348,334                      |
| Granted                                    | —  | —                              |
| Forfeited                                  | —  | —                              |
| Vested                                     | \$ 30.00                                     | (445,331 )                     |
| Unvested at March 31, 2016                 | \$ 30.00                                     | 1,903,003                      |





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Compensation expense recognized related to the unvested Class B awards was \$7.8 million and \$10.4 million for the three months ended March 31, 2016 and 2015, respectively. The unrecognized compensation expense for the unvested Class B awards as of March 31, 2016, was \$35.7 million with a weighted average recognition period of 1.3 years remaining.

**Note 9. Income Taxes and Related Payments**

APAM is subject to U.S. federal, state and local income taxation on APAM's allocable portion of Holdings' income. APAM's effective income tax rate was lower than the U.S. federal statutory rate of 35% primarily due to a rate benefit attributable to the fact that, for the three months ended March 31, 2016, approximately 47% of Artisan Partners Holdings' taxable earnings were attributable to other partners and not subject to corporate-level taxes. This favorable impact is partially offset by the impact of certain permanent items, primarily attributable to pre-IPO share-based compensation expenses, that are not deductible for tax purposes.

Components of the provision for income taxes consist of the following:

|                    | For the Three<br>Months Ended<br>March 31, |          |
|--------------------|--|----------|
|                    | 2016                                       | 2015     |
| Current:           |  |          |
| Federal            | \$2,670                                    | \$5,040  |
| State and local    | 544  | 520      |
| Foreign            | 185  | 98       |
| Total              | 3,399                                      | 5,658    |
| Deferred:          |  |          |
| Federal            | 7,679                                      | 6,743    |
| State and local    | 439  | (7,319 ) |
| Total              | 8,118                                      | (576 )   |
| Income tax expense | \$11,517                                   | \$5,082  |

In connection with the IPO, APAM entered into two tax receivable agreements ("TRAs"). The first TRA generally provides for the payment by APAM to a private equity fund (the "Pre-H&F Corp Merger Shareholder") of 85% of the applicable cash savings, if any, of U.S. federal, state and local income taxes that APAM actually realizes (or is deemed to realize in certain circumstances) as a result of (i) the tax attributes of the preferred units APAM acquired in the merger of a wholly-owned subsidiary of the Pre-H&F Corp Merger Shareholder into APAM in March 2013, (ii) net operating losses available as a result of the merger and (iii) tax benefits related to imputed interest.

The second TRA generally provides for the payment by APAM to current or former limited partners of Holdings of 85% of the applicable cash savings, if any, of U.S. federal, state and local income taxes that APAM actually realizes (or is deemed to realize in certain circumstances) as a result of (i) certain tax attributes of their partnership units sold to APAM or exchanged (for shares of Class A common stock, convertible preferred stock or other consideration) and that are created as a result of such sales or exchanges and payments under the TRAs and (ii) tax benefits related to imputed interest. Under both agreements, APAM generally will retain the benefit of the remaining 15% of the applicable tax savings.

For purposes of the TRAs, cash savings of income taxes are calculated by comparing APAM's actual income tax liability to the amount it would have been required to pay had it not been able to utilize any of the tax benefits subject to the TRAs, unless certain assumptions apply. The TRAs will continue in effect until all such tax benefits have been utilized or expired, unless APAM exercises its right to terminate the agreements or payments under the agreements are accelerated in the event that APAM materially breaches any of its material obligations under the agreements.

The actual increase in tax basis, as well as the amount and timing of any payments under these agreements, will vary depending upon a number of factors, including the timing of sales or exchanges by the holders of limited partnership units, the price of the Class A common stock at the time of such sales or exchanges, whether such sales or exchanges are taxable, the amount and timing of the taxable income APAM generates in the future and the tax rate then applicable and the portion of APAM's payments under the TRAs constituting imputed interest or depreciable basis or

amortizable basis.

Payments under the TRAs, if any, will be made pro rata among all TRA counterparties entitled to payments on an annual basis to the extent APAM has sufficient taxable income to utilize the increased depreciation and amortization charges. Artisan expects to make one or more payments under the TRAs, to the extent they are required, prior to or within 125 days after APAM's U.S. federal income tax return is filed for each fiscal year. Interest on the TRA payments will accrue at a rate equal to one-year LIBOR plus 100 basis points from the due date (without extension) of such tax return until such payments are made.

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Amounts payable under tax receivable agreements are estimates which may be impacted by factors, including but not limited to, expected tax rates, projected taxable income, and projected ownership levels and are subject to change. Changes in the estimates of amounts payable under tax receivable agreements are recorded as non-operating income (loss) in the Consolidated Statements of Operations.

Transactions during the three months ended March 31, 2016 resulted in the following impact to deferred tax assets and amounts payable under the TRAs:

|                   | Amounts payable under tax receivable agreements | Deferred Tax Asset - Amortizable basis |
|-------------------|---|--|
| December 31, 2015 | 589,101   | 660,254                                |
| 2016 Exchanges    | 12,190  | 14,341                                 |
| Amortization      | —   | (8,721 )                               |
| March 31, 2016    | \$ 601,291                                      | \$ 665,874                             |

Net deferred tax assets comprise the following:

|  | As of March 31, 2016 | As of December 31, 2015 |
|--|----------------------|-------------------------|
| Deferred tax assets:                     |                      |                         |
| Amortizable basis <sup>(1)</sup>         | \$665,874            | \$ 660,254              |
| Other <sup>(2)</sup>                     | 21,135               | 18,283                  |
| Total deferred tax assets                | 687,009              | 678,537                 |
| Less: valuation allowance <sup>(3)</sup> | —                    | —                       |
| Net deferred tax assets                  | \$687,009            | \$ 678,537              |

<sup>(1)</sup> Represents the unamortized step-up of tax basis and other tax attributes from the merger described above, the purchase of common and preferred units by APAM, and the exchange of common and preferred units for Class A common shares of APAM.

<sup>(2)</sup> Represents the net deferred tax assets associated with the merger described above and other miscellaneous deferred tax assets.

<sup>(3)</sup> Artisan assessed whether the deferred tax assets would be realizable and determined based on its history of taxable income that the benefits would more likely than not be realized. Accordingly, no valuation allowance is required.

Accounting standards establish a minimum threshold for recognizing, and a system for measuring, the benefits of income tax return positions in financial statements. There were no uncertain tax positions recorded as of March 31, 2016 and December 31, 2015.

In the normal course of business, Artisan is subject to examination by federal and certain state, local and foreign tax regulators. As of March 31, 2016, U.S. federal income tax returns for the years 2012 through 2014 are open and therefore subject to examination. State and local tax returns are generally subject to examination from 2011 to 2014. Foreign tax returns are generally subject to examination from 2011 to 2015. APAM is currently under examination by the Internal Revenue Service for the tax year 2014.

Note 10. Accumulated Other Comprehensive Income (Loss)

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Accumulated other comprehensive income (loss), net of tax, in the accompanying Condensed Consolidated Statements of Financial Condition represents the portion of accumulated other comprehensive income attributable to APAM, and consists of the following:

|   | As of<br>March<br>31,<br>2016 | As of<br>December<br>31, 2015 |
|---|-------------------------------|-------------------------------|
| Unrealized gain (loss) on investments         | \$66                          | \$ 77                         |
| Foreign currency translation gain (loss)      | (625 )                        | (452 )                        |
| Accumulated other comprehensive income (loss) | \$(559)                       | \$( 375 )                     |

Comprehensive income (loss) attributable to noncontrolling interests - Artisan Partners Holdings in the Consolidated Statements of Comprehensive Income (Loss) represents the portion of comprehensive income (loss) attributable to the equity ownership interests in Holdings held by the limited partners of Holdings.

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## Note 11. Earnings Per Share

Basic earnings per share is computed under the two-class method by dividing income available to Class A common stockholders by the weighted average number of Class A common shares outstanding during the period. Unvested restricted share-based awards are excluded from the number of Class A common shares outstanding for the basic earnings per share calculation because the shares have not yet been earned by the employees. Income available to Class A common stockholders is computed by reducing net income attributable to APAM by earnings (distributed and undistributed) allocated to participating securities, according to their respective rights to participate in those earnings. Unvested share-based awards are participating securities because the awards include non-forfeitable dividend rights during the vesting period. Class B and Class C common shares do not share in profits of APAM and therefore are not reflected in the calculations.

The computation of basic and diluted earnings per share under the two-class method for the three months ended March 31, 2016 and 2015 were as follows:

| Basic and Diluted Earnings Per Share         | For the Three<br>Months Ended<br>March 31, |            |
|--|--|------------|
|  | 2016                                       | 2015       |
| Numerator:                                   |  |            |
| Net income attributable to APAM              | \$ 16,261                                  | \$ 19,514  |
| Less: Allocation to participating securities | 3,162                                      | 5,557      |
| Net income available to common stockholders  | \$ 13,099                                  | \$ 13,957  |
| Denominator:                                 |  |            |
| Weighted average shares outstanding          | 36,970,953                                 | 32,633,481 |
| Earnings per share                           | \$0.35                                     | \$ 0.43    |

Allocation to participating securities generally represents dividends paid to holders of unvested restricted share-based awards. There were no dilutive securities outstanding during the three months ended March 31, 2015 and 2016. The Holdings limited partnership units are anti-dilutive primarily due to the impact of public company expenses and unrecognized share-based compensation expense. Unvested share-based awards receive dividends and are considered participating securities. As a result, unvested share-based awards are also anti-dilutive.

The following table summarizes the weighted-average shares outstanding that are excluded from the calculation of diluted earnings per share because their effect would have been anti-dilutive:

| Anti-Dilutive Weighted Average Shares Outstanding | For the Three Months<br>Ended March 31, |            |
|---|---|------------|
|   | 2016                                    | 2015       |
| Holdings limited partnership units                | 33,740,947                              | 37,609,365 |
| Unvested restricted share-based awards            | 3,371,803                               | 2,991,457  |
| Total   | 37,112,750                              | 40,600,822 |

## Note 12. Indemnifications

In the normal course of business, APAM enters into agreements that include indemnities in favor of third parties. Holdings has also agreed to indemnify APAM as its general partner, Artisan Investment Corporation ("AIC") as its former general partner, the directors and officers of APAM, the directors and officers of AIC as its former general partner, the members of its former Advisory Committee, and its partners, directors, officers, employees and agents. Holdings' subsidiaries may also have similar agreements to indemnify their respective general partner(s), directors, officers, directors and officers of their general partner(s), partners, members, employees, and agents. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against us that have not yet occurred. APAM maintains insurance policies that may provide coverage against certain claims under these indemnities.



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## Note 13. Related Party Transactions

The current named executive officers of APAM and certain members of APAM's board (or their affiliates) are limited partners of Holdings. As a result, certain transactions (such as TRA payments) between Artisan and the limited partners of Holdings are considered to be related party transactions with respect to these persons.

## Affiliate transactions—Artisan Funds

Artisan has an agreement to serve as the investment adviser to Artisan Funds, with which certain Artisan employees are affiliated. Under the terms of the agreement, which generally is reviewed and continued by the board of directors of Artisan Funds annually, a fee is paid to Artisan based on an annual percentage of the average daily net assets of each Artisan Fund ranging from 0.625% to 1.25%. Artisan generally collects revenues related to these services on the last business day of each month and records them in Management Fees in the Consolidated Statement of Operations. Artisan has contractually agreed to waive its management fees or reimburse for expenses incurred to the extent necessary to limit annualized ordinary operating expenses incurred by certain of the Artisan Funds to not more than a fixed percentage (ranging from 0.88% to 1.50%) of a Fund's average daily net assets. In addition, Artisan may voluntarily waive fees or reimburse any of the Artisan Funds for other expenses. The officers and a director of Artisan Funds who are affiliated with Artisan receive no compensation from the funds.

Fees for managing the Funds and amounts waived or reimbursed by Artisan for fees and expenses (including management fees) are as follows:

|  | For the Three<br>Months Ended<br>March 31,<br>2016 |  | 2015 |
|--|--|--|------|
|--|--|--|------|

## Investment management fees:

|               |           |           |  |
|---------------|-----------|-----------|--|
| Artisan Funds | \$111,175 | \$134,307 |  |
|---------------|-----------|-----------|--|

## Fee waiver / expense reimbursement:

|               |       |     |  |
|---------------|-------|-----|--|
| Artisan Funds | \$133 | \$— |  |
|---------------|-------|-----|--|

## Affiliate transactions—Artisan Global Funds

Artisan has an agreement to serve as the investment adviser to Artisan Global Funds, with which certain Artisan employees are affiliated. Under the terms of these agreements, a fee is paid based on an annual percentage of the average daily net assets of each fund ranging from 0.75% to 1.80%. Artisan reimburses each sub-fund of Artisan Global Funds to the extent that sub-fund's expenses, not including Artisan's fee, exceed certain levels, which range from 0.10% to 0.20%. In addition, Artisan may voluntarily waive fees or reimburse any of the Artisan Global Funds for other expenses. The directors of Artisan Global Funds who are affiliated with Artisan receive no compensation from the funds. Accounts receivable included \$1.2 million and \$1.3 million due from Artisan Global Funds as of March 31, 2016 and December 31, 2015, respectively.

Fees for managing Artisan Global Funds and amounts reimbursed to Artisan Global Funds by Artisan are as follows:

|  | For the Three<br>Months Ended<br>March 31,<br>2016 |  | 2015 |
|--|--|--|------|
|--|--|--|------|

## Investment management fees:

|                      |         |         |  |
|----------------------|---------|---------|--|
| Artisan Global Funds | \$3,625 | \$3,724 |  |
|----------------------|---------|---------|--|

## Fee waiver / expense reimbursement:

|                      |      |      |  |
|----------------------|------|------|--|
| Artisan Global Funds | \$88 | \$63 |  |
|----------------------|------|------|--|

## Note 14. Subsequent Events

## Distributions and dividends

On April 11, 2016, Artisan Partners Holdings made a distribution of \$35.1 million to holders of Artisan Partners Holdings partnership units, including APAM, pursuant to the partnership agreement.



On April 20, 2016, the board of directors of APAM declared a distribution by Artisan Partners Holdings of \$33.9 million to holders of Artisan Partners Holdings partnership units, including APAM. On the same date, the board declared a quarterly dividend of \$0.60 per share of Class A common stock. The APAM dividend is payable on May 31, 2016, to shareholders of record as of May 17, 2016.

On April 15, 2016, the Company made a payment of approximately \$21 million under the tax receivable agreements representing a portion of the Company's estimated total 2016 payments.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are an investment management firm focused on providing high-value added, active investment strategies to sophisticated clients globally. Our operations are conducted through Artisan Partners Holdings and its subsidiaries. We derive essentially all of our revenues from investment management fees. Nearly all our fees are based on a specified percentage of clients' average assets under our management. We operate our business in a single segment. We have seven autonomous investment teams that manage a broad range of U.S., non-U.S., and global investment strategies. Strategies are offered through multiple investment vehicles to accommodate a broad range of client mandates.

Assets Under Management

During the three months ended March 31, 2016, global equity markets were volatile and generated mixed returns. Our AUM was \$97.0 billion at March 31, 2016, a decrease of \$2.8 billion, or 2.8%, compared to \$99.8 billion at December 31, 2015, as a result of \$1.5 billion of market depreciation and \$1.3 billion in net client cash outflows.

The pronounced declines in equity markets during the first two months of the quarter followed by a partial rebound in March caused a greater decline in our average AUM than in our ending AUM. Average AUM for the three months ended March 31, 2016 decreased 8.4% compared to the three months ended December 31, 2015, and decreased 14.3% as compared to the three months ended March 31, 2015.

Business and Financial Highlights

At quarter-end, the 5-year average annual returns of 7 of our 12 investment strategies with 5-year track records exceeded the returns of the applicable benchmark. Our Global Opportunities and Global Equity strategies, both of which are open to new clients and investors and have realizable capacity, beat their benchmarks on a gross basis by over 500 and 450 basis points, respectively, over the 5-year period.

At quarter-end, the 10-year average annual returns of 6 of our 8 investment strategies with 10-year track records exceeded the returns of the applicable benchmark.

Firm-wide net outflows of \$1.3 billion were primarily driven by net outflows from the strategies managed by our U.S. Value team, which experienced a total of \$1.2 billion of net outflows during the quarter. During the quarter, we announced that the U.S. Value team will cease managing assets in the U.S. Small-Cap Value strategy during the second quarter of 2016.

During the first quarter, our High Income strategy raised \$334 million in net client cash flows; our Developing World strategy raised \$170 million in net client cash flows; and our Global Opportunities strategy raised \$151 million in net client cash flows. All three strategies are open to new clients and investors. Our Global Value strategy, which we re-opened to investors in our pooled vehicles, raised \$88 million in net client cash flows.

Revenues were \$174.5 million for the three months ended March 31, 2016, a 14% decrease from revenues of \$203.6 million for the three months ended March 31, 2015.

Operating margin was 31.4% for the three months ended March 31, 2016 compared to 33.3% for the three months ended March 31, 2015. Adjusted operating margin was 35.8% for the March quarter of 2016 compared to 38.4% for the March quarter of 2015.

Net income attributable to APAM was \$16.3 million, or \$0.35 per basic and diluted share, for three months ended March 31, 2016 compared to \$19.5 million, or \$0.43 per basic and diluted share, for the three months ended March 31, 2015. Adjusted net income per adjusted share was \$0.51 in the March quarter of 2016 compared to \$0.65 in the March quarter of 2015.

We continued our culture of employee ownership through a grant of 1,102,660 restricted share-based awards to our employees. A substantial majority of the awards were granted to investment professionals.

Organizational Structure

Organizational Structure

On March 12, 2013, Artisan Partners Asset Management Inc. (“APAM”) and the intermediary holding company through which APAM conducts its operations, Artisan Partners Holdings LP (“Holdings”), completed a series of transactions (“the IPO Reorganization”) to reorganize their capital structures in connection with the initial public offering (“IPO”) of APAM’s Class A common stock. The IPO Reorganization and IPO were completed on March 12, 2013. The IPO Reorganization was designed to create a capital structure that preserves our ability to conduct our business through Holdings, while permitting us to raise additional capital and provide access to liquidity through a public company. The IPO Reorganization is described in greater detail in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 25, 2016.

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Our employees and other limited partners of Holdings held approximately 45% of the equity interests in Holdings as of March 31, 2016. As a result, our post-IPO results reflect that significant noncontrolling interest.

2016 Unit Exchanges

During the three months ended March 31, 2016, certain limited partners of Holdings exchanged 764,971 common units (along with a corresponding number of shares of Class B or Class C common stock of APAM) for 764,971 shares of Class A common stock. In connection with the exchanges, APAM received 764,971 GP units of Holdings. APAM's equity ownership interest in Holdings increased from 54% at December 31, 2015 to 55% at March 31, 2016, as a result of these exchanges and other equity transactions during the period.

Tax Impact of IPO Reorganization

In connection with the IPO, APAM entered into two tax receivable agreements ("TRAs"). The first TRA generally provides for the payment by us to a private equity fund (the "Pre-H&F Corp Merger Shareholder") of 85% of the applicable cash savings, if any, of U.S. federal, state and local income taxes that we actually realize (or are deemed to realize in certain circumstances) as a result of (i) the tax attributes of the preferred units APAM acquired in the merger of a wholly-owned subsidiary of the Pre-H&F Corp Merger Shareholder into us in March 2013, (ii) net operating losses available as a result of the merger and (iii) tax benefits related to imputed interest.

The second TRA generally provides for the payment by us to current or former limited partners of Holdings of 85% of the applicable cash savings, if any, of U.S. federal, state and local income taxes that we actually realize (or are deemed to realize in certain circumstances) as a result of (i) certain tax attributes of their partnership units sold to us or exchanged (for shares of Class A common stock, convertible preferred stock or other consideration) and that are created as a result of such sales or exchanges and payments under the TRAs and (ii) tax benefits related to imputed interest. Under both agreements, APAM generally will retain the benefit of the remaining 15% of the applicable tax savings.

Transactions during the three months ended March 31, 2016, resulted in the following impact to deferred tax assets and amounts payable under the TRAs:

|                   | Amounts payable under tax receivable agreements<br>(in millions) | Deferred Tax Asset -<br>Amortizable basis |
|-------------------|--|---|
| December 31, 2015 | \$589.1  | \$660.3                                   |
| 2016 Exchanges    | 12.2   | 14.3                                      |
| Amortization      | —  | (8.7)                                     |
| March 31, 2016    | \$601.3  | \$665.9                                   |

Financial OverviewEconomic Environment

Global equity market conditions can materially affect our financial performance. During the three months ended March 31, 2016, our AUM decreased 2.8%, 1.5% of which was due to market depreciation. The following table presents the total returns of relevant market indices for the three months ended March 31, 2016 and 2015:

|                               | For the Three<br>Months<br>Ended March<br>31,<br>2016 2015 |       |
|-------------------------------|--|-------|
| S&P 500 total returns         | 1.3 %  | 1.0 % |
| MSCI All World total returns  | 0.2 %  | 2.3 % |
| MSCI EAFE total returns       | (3.0)%   | 4.9 % |
| Russell Midcap® total returns | 2.2 %  | 4.0 % |

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## Key Performance Indicators

When we review our performance we consider, among other things, the following:

|  | For the Three Months<br>Ended March 31, |     |            |     |
|--|---|-----|------------|-----|
|  | 2016                                    |     | 2015       |     |
|  | (unaudited; dollars in<br>millions)     |     |            |     |
| Assets under management at period end          | \$97,032                                |     | \$108,723  |     |
| Average assets under management <sup>(1)</sup> | \$92,896                                |     | \$108,410  |     |
| Net client cash flows                          | \$(1,339 )                              |     | \$(2,228 ) |     |
| Total revenues                                 | \$174.5                                 |     | \$203.6    |     |
| Weighted average fee <sup>(2)</sup>            | 76                                      | bps | 76         | bps |
| Adjusted operating margin <sup>(3)</sup>       | 35.8                                    | %   | 38.4       | %   |

<sup>(1)</sup> We compute average assets under management by averaging day-end assets under management for the applicable period.

<sup>(2)</sup> We compute our weighted average fee by dividing annualized investment management fees by average assets under management for the applicable period.

<sup>(3)</sup> Adjusted measures are non-GAAP measures and are explained and reconciled to the comparable GAAP measures in “Supplemental Non-GAAP Financial Information” below.

Because we earn investment management fees based primarily on the value of the assets we manage across a reporting period, we believe that average assets under management for a period is a better metric for understanding changes in our revenues than period end assets under management.

The weighted average fee represents annualized investment management fees as a percentage of average assets under management for the applicable period. We have historically been disciplined about maintaining our rates of fees. Over time, industry-wide fee pressure could cause us to reduce our fees.

## Assets Under Management and Investment Performance

Changes to our operating results from one period to another are primarily caused by changes in the amount of our assets under management. Changes in the relative composition of our assets under management among our investment strategies and vehicles and the effective fee rates on our products also impact our operating results.

The amount and composition of our assets under management are, and will continue to be, influenced by a variety of factors including, among others:

• investment performance, including fluctuations in both the financial markets and foreign currency exchange rates and the quality of our investment decisions;

• flows of client assets into and out of our various strategies and investment vehicles;

• our decision to close strategies or limit the growth of assets in a strategy or a vehicle when we believe it is in the best interest of our clients, as well as our decision to re-open strategies, in part or entirely;

• our ability to attract and retain qualified investment, management, and marketing and client service professionals;

• industry trends towards products or strategies that we do not offer;

• competitive conditions in the investment management and broader financial services sectors; and

• investor sentiment and confidence.

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The table below sets forth changes in our total AUM:

|   | For the Three<br>Months Ended<br>March 31, |           | Period-to-Period |          |
|---|--|-----------|------------------|----------|
|   | 2016                                       | 2015      | \$               | %        |
|   | (unaudited; in<br>millions)                |           |                  |          |
| Beginning assets under management                 | \$99,848                                   | \$107,915 | \$(8,067)        | (7.5)%   |
| Gross client cash inflows                         | 4,653                                      | 4,423     | 230              | 5.2%     |
| Gross client cash outflows                        | (5,992)                                    | (6,651)   | 659              | 9.9%     |
| Net client cash flows                             | (1,339)                                    | (2,228)   | 889              | 39.9%    |
| Market appreciation (depreciation) <sup>(1)</sup> | (1,461)                                    | 3,036     | (4,497)          | (148.1)% |
| Net transfers <sup>(2)</sup>                      | (16)                                       | —         | (16)             | 100.0%   |
| Ending assets under management                    | \$97,032                                   | \$108,723 | \$(11,691)       | (10.8)%  |
| Average assets under management                   | \$92,896                                   | \$108,410 | \$(15,514)       | (14.3)%  |

<sup>(1)</sup> Includes the impact of translating the value of assets under management denominated in non-USD currencies into U.S. dollars. The impact was immaterial for the periods presented.

<sup>(2)</sup> Net transfers represent certain amounts that we have identified as having been transferred out of one investment strategy or investment vehicle and into another strategy or vehicle.

We believe that growth in AUM in an investment strategy requires the availability of attractive investment opportunities relative to the amount of AUM in the strategy at a time when the strategy has a competitive performance track record and there is stable or growing client demand for the strategy or asset class. When we believe that each of these factors is present with respect to an investment strategy, we say we have “realizable capacity” in that strategy. We discuss realizable capacity in general, rather than discussing the capacity of our strategies in precise dollar amounts, because capacity is affected by a number of factors, evolves over time, and is subject to change. We are confident that we have sufficient realizable capacity to continue to thoughtfully grow. In particular, we believe that we currently have realizable capacity in our Global Opportunities and Global Equity strategies, where we believe we are well-positioned to take advantage of client and investor demand. The Global Opportunities strategy had \$151 million of net client cash inflows during the three months ended March 31, 2016, while the Global Equity strategy’s net flows were slightly negative. While our past inflow experience does not guarantee future activity, if these strategies continue to perform well relative to their benchmarks and global strategies remain in demand, we expect that they will gather assets.

Across the firm, we experienced total net outflows of \$1.3 billion during the three months ended March 31, 2016. The strategies managed by our U.S. Value team experienced total net outflows of \$1.2 billion as a result of extended underperformance and our February 2016 announcement that we intend to cease managing assets in the U.S. Small-Cap Value strategy in the second quarter of 2016. The Small-Cap Value strategy experienced \$187 million of net outflows during the March quarter. The strategy had \$699 million of AUM at March 31, 2016, including \$358 million of AUM in Artisan Small Cap Value Fund, which will merge into Artisan Mid Cap Value Fund in late May 2016. If the U.S. Value team’s strategies continue to underperform their benchmarks and client trends continue, we expect the team’s strategies will continue to experience net outflows.

Our High Income strategy, which we launched in March 2014, generated net inflows of \$334 million during the three months ended March 31, 2016. We also saw strong interest in our Developing World strategy, which launched at the end of June 2015 and has generated a total of \$550 million in net inflows since that time. And our Global Value strategy, which we re-opened to investors in our pooled vehicles in the fourth quarter of 2015, generated \$88 million of net inflows during the March quarter, after several quarters of net outflows while the strategy was closed to most new investors.

Our Non-U.S. Growth strategy had net outflows of \$631 million for the three months ended March 31, 2016. As previously announced, we closed the strategy to most new retail and intermediary investors in February 2016, and we will further close the strategy to most new institutional investors and employee benefit plans in October 2016. The partial closing in February and scheduled further closing have impacted and will continue to impact the strategy's net cash flows, though we cannot estimate the impact with any certainty because of the many factors involved.

We monitor the availability of attractive investment opportunities relative to the amount of assets we manage in each of our investment strategies. When appropriate, we will close a strategy to new investors or otherwise take action to slow or restrict its growth, even though our aggregate AUM may be negatively impacted in the short term. We may also re-open a strategy, widely or selectively, to fill available capacity or manage the diversification of our client base in that strategy. We believe that management of our investment capacity protects our ability to manage assets successfully, which protects the interests of our clients and, in the long term, protects our ability to retain client assets and maintain our profit margins.

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In addition to our Non-U.S. Growth and Global Value strategies which are partially closed as described above, as of the date of this filing, our Non-U.S. Small-Cap Growth, Non-U.S. Value, U.S. Mid-Cap Growth, U.S. Small-Cap Value, U.S. Mid-Cap Value and U.S. Small-Cap Growth strategies are closed to most new investors and client relationships.

When we close a strategy, we typically continue to allow additional investments in the strategy by existing clients and certain related entities, which means that during a given period we could have net client cash inflows even in a closed strategy. For example, during the three months ended March 31, 2016, our Non-U.S. Value strategy, which is closed to most new investors and client relationships, had \$243 million in net client cash inflows. However, when a strategy is closed or its growth is restricted we expect there to be periods of net client cash outflows.

We measure investment performance based upon the results of our “composites”, which represent the aggregate performance of all discretionary client accounts, including mutual funds, invested in the same strategy except those accounts with respect to which we believe client-imposed investment restrictions may have a material impact on portfolio construction and those accounts managed in a currency other than U.S. dollars.



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The table below sets forth the total AUM for each of our investment teams and strategies as of March 31, 2016, the inception date for each investment composite, and the average annual total returns for each composite and its respective broad-based benchmark (and style benchmark, if applicable) over a multi-horizon time period as of March 31, 2016. Returns for periods of less than one year are not annualized.

| Investment Team and Strategy             | Inception Date | Strategy AUM (in \$MM) | Average Annual Total Returns (%) |         |         |       |           | Average Annual Value-Added <sup>1</sup> Since Inception (bps) |
|--|----------------|------------------------|----------------------------------|---------|---------|-------|-----------|---|
|  |                |                        | 1 YR                             | 3 YR    | 5 YR    | 10 YR | Inception |   |
| <b>Global Equity Team</b>                |                |                        |                                  |         |         |       |           |   |
| Non-U.S. Growth Strategy                 | 1/1/1996       | \$28,149               | (10.04)%                         | 3.98%   | 6.53%   | 4.87% | 10.26%    | 605   |
| MSCI EAFE Index                          |                |                        | (8.27)%                          | 2.23%   | 2.29%   | 1.80% | 4.21%     |   |
| Non-U.S. Small-Cap Growth Strategy       | 1/1/2002       | \$1,221                | 1.09%                            | 5.28%   | 7.38%   | 7.12% | 13.77%    | 394   |
| MSCI EAFE Small Cap Index                |                |                        | 3.20%                            | 7.28%   | 5.57%   | 3.44% | 9.83%     |   |
| Global Equity Strategy                   | 4/1/2010       | \$929                  | (7.92)%                          | 6.10%   | 9.94%   | N/A   | 10.90%    | 426   |
| MSCI All Country World Index             |                |                        | (4.34)%                          | 5.53%   | 5.22%   | N/A   | 6.64%     |   |
| Global Small-Cap Growth Strategy         | 7/1/2013       | \$123                  | (6.71)%                          | N/A     | N/A     | N/A   | 2.48%     | (436)   |
| MSCI All Country World Small Cap Index   |                |                        | (4.50)%                          | N/A     | N/A     | N/A   | 6.84%     |   |
| <b>U.S. Value Team</b>                   |                |                        |                                  |         |         |       |           |   |
| U.S. Mid-Cap Value Strategy              | 4/1/1999       | \$7,452                | (5.08)%                          | 5.55%   | 8.51%   | 8.38% | 13.13%    | 424   |
| Russell Midcap <sup>®</sup> Index        |                |                        | (4.04)%                          | 10.44%  | 10.29%  | 7.44% | 8.89%     |   |
| Russell Midcap <sup>®</sup> Value Index  |                |                        | (3.39)%                          | 9.88%   | 10.50%  | 7.22% | 9.56%     |   |
| U.S. Small-Cap Value Strategy            | 6/1/1997       | \$699                  | (4.68)%                          | 1.46%   | 1.74%   | 4.95% | 10.79%    | 353   |
| Russell 2000 <sup>®</sup> Index          |                |                        | (9.76)%                          | 6.84%   | 7.19%   | 5.25% | 7.26%     |   |
| Russell 2000 <sup>®</sup> Value Index    |                |                        | (7.72)%                          | 5.72%   | 6.66%   | 4.42% | 8.32%     |   |
| Value Equity Strategy                    | 7/1/2005       | \$1,625                | (2.82)%                          | 6.25%   | 8.76%   | 6.62% | 7.12%     | (45)  |
| Russell 1000 <sup>®</sup> Index          |                |                        | 0.50%                            | 11.51%  | 11.34%  | 7.05% | 7.58%     |   |
| Russell 1000 <sup>®</sup> Value Index    |                |                        | (1.54)%                          | 9.37%   | 10.23%  | 5.71% | 6.37%     |   |
| <b>Growth Team</b>                       |                |                        |                                  |         |         |       |           |   |
| U.S. Mid-Cap Growth Strategy             | 4/1/1997       | \$14,118               | (5.93)%                          | 10.12%  | 10.17%  | 9.69% | 15.00%    | 506   |
| Russell Midcap <sup>®</sup> Index        |                |                        | (4.04)%                          | 10.44%  | 10.29%  | 7.44% | 9.95%     |   |
| Russell Midcap <sup>®</sup> Growth Index |                |                        | (4.75)%                          | 10.98%  | 9.98%   | 7.43% | 8.51%     |   |
| U.S. Small-Cap Growth Strategy           | 4/1/1995       | \$2,090                | (6.96)%                          | 7.31%   | 9.63%   | 6.20% | 9.50%     | 90  |
| Russell 2000 <sup>®</sup> Index          |                |                        | (9.76)%                          | 6.84%   | 7.19%   | 5.25% | 8.60%     |   |
| Russell 2000 <sup>®</sup> Growth Index   |                |                        | (11.84)%                         | 7.90%   | 7.69%   | 6.00% | 6.85%     |   |
| Global Opportunities Strategy            | 2/1/2007       | \$7,669                | 3.28%                            | 10.17%  | 10.49%  | N/A   | 9.10%     | 615   |
| MSCI All Country World Index             |                |                        | (4.34)%                          | 5.53%   | 5.22%   | N/A   | 2.95%     |   |
| <b>Global Value Team</b>                 |                |                        |                                  |         |         |       |           |   |
| Non-U.S. Value Strategy                  | 7/1/2002       | \$16,598               | (3.33)%                          | 7.39%   | 8.63%   | 7.92% | 12.48%    | 689   |
| MSCI EAFE Index                          |                |                        | (8.27)%                          | 2.23%   | 2.29%   | 1.80% | 5.59%     |   |
| Global Value Strategy                    | 7/1/2007       | \$14,172               | (0.81)%                          | 8.96%   | 11.36%  | N/A   | 7.61%     | 551   |
| MSCI All Country World Index             |                |                        | (4.34)%                          | 5.53%   | 5.22%   | N/A   | 2.10%     |   |
| <b>Emerging Markets Team</b>             |                |                        |                                  |         |         |       |           |   |
| Emerging Markets Strategy                | 7/1/2006       | \$271                  | (5.80)%                          | (2.50)% | (4.82)% | N/A   | 3.43%     | (13)  |
| MSCI Emerging Markets Index              |                |                        | (12.03)%                         | (4.50)% | (4.13)% | N/A   | 3.56%     |   |
| <b>Credit Team</b>                       |                |                        |                                  |         |         |       |           |   |
| High Income Strategy <sup>2</sup>        | 4/1/2014       | \$1,343                | 0.12%                            | N/A     | N/A     | N/A   | 2.99%     | 400   |

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|   |          |          |         |     |     |     |          |     |
|---|----------|----------|---------|-----|-----|-----|----------|-----|
| BofA Merrill Lynch High Yield Master II Index |          |          | (3.99)% | N/A | N/A | N/A | (1.01)%  |     |
| Developing World Team                         |          |          |         |     |     |     |          |     |
| Developing World Strategy                     | 7/1/2015 | \$573    | N/A     | N/A | N/A | N/A | (7.11)%  | 552 |
| MSCI Emerging Markets Index                   |          |          | N/A     | N/A | N/A | N/A | (12.63)% |     |
| Total Assets Under Management                 |          | \$97,032 |         |     |     |     |          |     |

(1) Value-added is the amount in basis points by which the average annual gross composite return of each of our strategies has outperformed the broad-based market index most commonly used by our clients to compare the performance of the relevant strategy. Value-added for periods less than one year is not annualized.

(2) The Artisan High Income strategy may hold loans and other security types, including securities with lower credit ratings, that may not be included in the BofA Merrill Lynch High Yield Master II Index. At times, this causes material differences in relative performance.

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The tables below set forth changes in our AUM by investment team:

| Three Months Ended                 | By Investment Team       |            |          |              |                  |         |                  | Total     |
|------------------------------------|--------------------------|------------|----------|--------------|------------------|---------|------------------|-----------|
|                                    | Global Equity            | U.S. Value | Growth   | Global Value | Emerging Markets | Credit  | Developing World |           |
| March 31, 2016                     | (unaudited; in millions) |            |          |              |                  |         |                  |           |
| Beginning assets under management  | \$32,434                 | \$10,369   | \$24,929 | \$30,182     | \$ 571           | \$989   | \$ 374           | \$99,848  |
| Gross client cash inflows          | 1,228                    | 353        | 1,229    | 1,210        | 1                | 447     | 185              | 4,653     |
| Gross client cash outflows         | (1,887)                  | (1,515)    | (1,254)  | (879)        | (329)            | (113)   | (15)             | (5,992)   |
| Net client cash flows              | (659)                    | (1,162)    | (25)     | 331          | (328)            | 334     | 170              | (1,339)   |
| Market appreciation (depreciation) | (1,353)                  | 569        | (1,027)  | 273          | 28               | 20      | 29               | (1,461)   |
| Net transfers <sup>(1)</sup>       | —                        | —          | —        | (16)         | —                | —       | —                | (16)      |
| Ending assets under management     | \$30,422                 | \$9,776    | \$23,877 | \$30,770     | \$ 271           | \$1,343 | \$ 573           | \$97,032  |
| Average assets under management    | \$29,877                 | \$9,497    | \$22,577 | \$28,919     | \$ 499           | \$1,123 | \$ 405           | \$92,896  |
| March 31, 2015                     |                          |            |          |              |                  |         |                  |           |
| Beginning assets under management  | \$31,452                 | \$18,112   | \$24,499 | \$32,481     | \$ 806           | \$565   | \$ —             | \$107,915 |
| Gross client cash inflows          | 2,237                    | 445        | 889      | 719          | 3                | 130     | —                | 4,423     |
| Gross client cash outflows         | (1,307)                  | (2,586)    | (1,291)  | (1,243)      | (185)            | (39)    | —                | (6,651)   |
| Net client cash flows              | 930                      | (2,141)    | (402)    | (524)        | (182)            | 91      | —                | (2,228)   |
| Market appreciation (depreciation) | 1,219                    | 272        | 967      | 555          | 5                | 18      | —                | 3,036     |
| Net transfers <sup>(1)</sup>       | —                        | —          | —        | —            | —                | —       | —                | —         |
| Ending assets under management     | \$33,601                 | \$16,243   | \$25,064 | \$32,512     | \$ 629           | \$674   | \$ —             | \$108,723 |
| Average assets under management    | \$32,618                 | \$17,256   | \$24,734 | \$32,443     | \$ 749           | \$611   | \$ —             | \$108,410 |

<sup>(1)</sup> Net transfers represent certain amounts that we have identified as having been transferred out of one investment strategy or investment vehicle and into another strategy or vehicle.

The goal of our marketing, distribution and client services efforts is to establish and maintain a client base that is diversified by investment strategy, investment vehicle and distribution channel. As distribution channels have evolved to have more institutional-like decision making processes and longer-term investment horizons, we have expanded our distribution efforts into those areas.

The table below sets forth our AUM by distribution channel:

|                                | As of March 31, 2016 <sup>(1)</sup> |            | As of March 31, 2015 <sup>(1)</sup> |            |
|--------------------------------|-------------------------------------|------------|-------------------------------------|------------|
|                                | \$ in millions (unaudited)          | % of total | \$ in millions (unaudited)          | % of total |
| Institutional                  | \$62,709                            | 64.6 %     | \$68,639                            | 63.1 %     |
| Intermediary                   | 29,497                              | 30.4 %     | 34,033                              | 31.3 %     |
| Retail                         | 4,826                               | 5.0 %      | 6,051                               | 5.6 %      |
| Ending Assets Under Management | \$97,032                            | 100.0%     | \$108,723                           | 100.0%     |

<sup>(1)</sup> The allocation of AUM by distribution channel data involves the use of estimates and the exercise of judgment.

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The following tables set forth the changes in our AUM for Artisan Funds, Artisan Global Funds and separate accounts:

| Three Months Ended                 | Artisan<br>Funds &<br>Artisan<br>Global<br>Funds | Separate<br>Accounts | Total     |
|------------------------------------|--|----------------------|-----------|
| March 31, 2016                     | (unaudited; in millions)                         |                      |           |
| Beginning assets under management  | \$53,526   | \$46,322             | \$99,848  |
| Gross client cash inflows          | 3,667  | 986                  | 4,653     |
| Gross client cash outflows         | (4,221 )   | (1,771 )             | (5,992 )  |
| Net client cash flows              | (554 )   | (785 )               | (1,339 )  |
| Market appreciation (depreciation) | (908 )   | (553 )               | (1,461 )  |
| Net transfers <sup>(1)</sup>       | 49   | (65 )                | (16 )     |
| Ending assets under management     | \$52,113   | \$44,919             | \$97,032  |
| Average assets under management    | \$49,900   | \$42,996             | \$92,896  |
| March 31, 2015                     |  |                      |           |
| Beginning assets under management  | \$60,257   | \$47,658             | \$107,915 |
| Gross client cash inflows          | 3,708  | 715                  | 4,423     |
| Gross client cash outflows         | (4,962 )   | (1,689 )             | (6,651 )  |
| Net client cash flows              | (1,254 )   | (974 )               | (2,228 )  |
| Market appreciation (depreciation) | 1,799  | 1,237                | 3,036     |
| Net transfers <sup>(1)</sup>       | (153 )   | 153                  | —         |
| Ending assets under management     | \$60,649   | \$48,074             | \$108,723 |
| Average assets under management    | \$60,277   | \$48,133             | \$108,410 |

<sup>(1)</sup> Net transfers represent certain amounts that we have identified as having been transferred out of one investment strategy or investment vehicle and into another strategy or vehicle.

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## Results of Operations

Three months ended March 31, 2016, Compared to Three months ended March 31, 2015

|   | For the Three<br>Months Ended<br>March 31,      |         | For the<br>Period-to-Period |       |
|---|---|---------|-----------------------------|-------|
|   | 2016  | 2015    | \$                          | %     |
| Statements of operations data:                                    | (unaudited; in millions, except per share data) |         |                             |       |
| Revenues  | \$174.5   | \$203.6 | \$(29.1)                    | (14)% |
| Operating Expenses  |   |         |                             |       |
| Total compensation and benefits                                   | 95.3  | 108.8   | (13.5)                      | (12)% |
| Other operating expenses  | 24.4  | 27.0    | (2.6)                       | (10)% |
| Total operating expenses  | 119.7   | 135.8   | (16.1)                      | (12)% |
| Total operating income  | 54.8  | 67.8    | (13.0)                      | (19)% |
| Non-operating income (loss)                                       |   |         |                             |       |
| Interest expense  | (2.9)   | (2.9)   | —                           | —%    |
| Other non-operating income  | —   | (6.4)   | 6.4                         | 100%  |
| Total non-operating income (loss)                                 | (2.9)   | (9.3)   | 6.4                         | 69%   |
| Income before income taxes  | 51.9  | 58.5    | (6.6)                       | (11)% |
| Provision for income taxes  | 11.5  | 5.1     | 6.4                         | 125%  |
| Net income before noncontrolling interests                        | 40.4  | 53.4    | (13.0)                      | (24)% |
| Less: Noncontrolling interests - Artisan Partners Holdings        | 24.1  | 33.9    | (9.8)                       | (29)% |
| Net income attributable to Artisan Partners Asset Management Inc. | \$16.3  | \$19.5  | \$(3.2)                     | (16)% |

## Per Share Data

|  |            |            |
|--|------------|------------|
| Net income available to Class A common stock per basic and diluted share | \$0.35     | \$0.43     |
| Weighted average shares of Class A common stock outstanding              | 36,970,952 | 32,633,481 |

## Revenues

Essentially all of our revenues consist of investment management fees earned from managing clients' assets. Our investment management fees fluctuate based on a number of factors, including the total value of our AUM, the composition of AUM among our investment vehicles (including pooled vehicles available to U.S. investors, pooled vehicles available to non-U.S. investors and separate accounts) and our investment strategies (which have different fee rates), changes in the investment management fee rates on our products, the extent to which we enter into fee arrangements that differ from our standard fee schedules, which can be affected by custom and the competitive landscape in the relevant market, and for the few accounts on which we earn performance-based fees, the investment performance of those accounts relative to their designated benchmarks.

The decrease in revenues of \$29.1 million, or 14%, for the three months ended March 31, 2016, compared to the three months ended March 31, 2015, was driven primarily by a \$15.5 billion, or 14%, decrease in our average AUM.

Our weighted average investment management fee was 76 basis points for the three months ended March 31, 2016 and 2015. Separate accounts, including U.S.-registered mutual funds, non-U.S. funds and collective investment trusts we sub-advise, in the aggregate paid a weighted average fee of 56 basis points for the three months ended March 31, 2016, compared to 55 basis points for the three months ended March 31, 2015. These assets represented 46% and 44% of our total AUM as of March 31, 2016 and 2015, respectively. Taken together, the assets of Artisan Funds and Artisan Global Funds, to which we provide services in addition to the services we provide to separate account clients, paid a weighted average fee of 93 basis points for the three months ended March 31, 2016 and 2015. These assets represented 54% and 56% of our AUM as of March 31, 2016 and 2015, respectively.

For the three months ended March 31, 2016 and 2015, fees from separate accounts represented \$59.8 million and \$65.5 million of our revenues, respectively. For the three months ended March 31, 2016 and 2015, fees from Artisan Funds represented \$111.1 million and \$134.4 million of our revenues, respectively, and fees from Artisan Global

Funds represented \$3.6 million and \$3.7 million, respectively.

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## Operating Expenses

The decrease in total operating expenses of \$16.1 million for the three months ended March 31, 2016, compared to the three months ended March 31, 2015, was primarily a result of lower incentive compensation and third-party distribution expenses and costs incurred in 2015 associated with the formation of our Developing World team.

## Compensation and Benefits

|  | For the Three            |         | Period-to-Period |       |
|--|--------------------------|---------|------------------|-------|
|  | Months                   |         |                  |       |
|  | Ended March              |         |                  |       |
|  | 31,                      |         |                  |       |
|  | 2016                     | 2015    | \$               | %     |
|  | (unaudited; in millions) |         |                  |       |
| Salaries, incentive compensation and benefits <sup>(1)</sup> | \$77.1                   | \$89.9  | \$(12.8)         | (14)% |
| Restricted share-based award compensation expense            | 10.4                     | 8.5     | 1.9              | 22%   |
| Total salaries, incentive compensation and benefits          | 87.5                     | 98.4    | (10.9)           | (11)% |
| Pre-offering related compensation - share-based awards       | 7.8                      | 10.4    | (2.6)            | (25)% |
| Total compensation and benefits                              | \$95.3                   | \$108.8 | \$(13.5)         | (12)% |

<sup>(1)</sup> Excluding restricted share-based award compensation expense

The decrease in salaries, incentive compensation, and benefits was driven primarily by an \$8.4 million decline in incentive compensation paid to our investment and marketing professionals as a result of lower investment management fee revenue and \$6.0 million of start-up costs related to the Developing World team incurred in the first quarter of 2015. The decreases were partially offset by increased costs related to an increase in our number of employees.

Restricted share-based compensation expense was \$10.4 million and \$8.5 million for the three months ended March 31, 2016 and 2015, respectively. The increase primarily resulted from our January 2016 grant of 1,082,035 restricted stock awards and 20,625 restricted stock units of Class A common stock to our employees. Total compensation expense associated with the 2016 grants is expected to be approximately \$33.6 million.

Pre-offering related compensation expense, which consists of the amortization expense on pre-offering Class B awards, decreased \$2.6 million as certain awards became fully vested during 2015 and 2016. The Class B awards will be fully vested on July 1, 2017.

Total salaries, incentive compensation and benefits was 50% and 48% of our revenues for the three months ended March 31, 2016, and 2015, respectively.

## Other operating expenses

Other operating expenses decreased \$2.6 million for the three months ended March 31, 2016, compared to the three months ended March 31, 2015, primarily due to a \$3.3 million reduction in distribution expenses. Distribution expenses decreased as a result of a decrease in our AUM sourced from third-party intermediaries and the launch of the Advisor Share class for certain series of Artisan Funds. The amount we and Artisan Funds pay to intermediaries for distribution and administrative services with respect to Advisor Shares is less than the amount paid with respect to Investor Shares. The transfer of assets from Investor Shares to Advisor Shares reduced our intermediary fees by approximately \$1.0 million for the three months ended March 31, 2016 as compared to the three months ended March 31, 2015.

Other operating expenses includes a \$2.0 million increase in communication and technology expenses as a result of an increase in information subscriptions and consulting expense related to firm initiatives. We expect to continue to invest in technology to support our investment teams, distribution efforts, and scalable operations.

## Non-Operating Income (Loss)

Non-operating income (loss) for the three months ended March 31, 2015 includes \$6.4 million of expense resulting from changes in the estimate of the payment obligation under the tax receivable agreements. The effect of changes in that estimate after the date of an exchange or sale that triggers a potential future payment under the agreements is included in net income. Similarly, the effect of changes in the estimate of enacted tax rates and in applicable tax laws are included in net income. No such changes were made in the three months ended March 31, 2016.





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Provision for Income Taxes

The provision for income taxes primarily represents APAM's U.S. federal, state and local income taxes on its allocable portion of Holdings' income, as well as foreign income taxes payable by Holdings' subsidiaries. APAM's effective income tax rate for the three months ended March 31, 2016 and 2015, was 22.2% and 8.7%, respectively. Several factors contribute to the effective tax rate, including a rate benefit attributable to the fact that approximately 47% and 50% of Holdings' earnings were not subject to corporate-level taxes for the three months ended March 31, 2016 and 2015, respectively. Income before income taxes includes amounts that are attributable to noncontrolling interests and not taxable to APAM and its subsidiaries, which reduces the effective tax rate. This favorable impact is partially offset by the impact of certain permanent items, primarily attributable to pre-IPO share-based compensation expenses, that are not deductible for tax purposes. These factors are expected to continue to impact the effective tax rate for future years, although as APAM's equity ownership in Holdings increases, the effective tax rate will likewise increase as more income will be subject to corporate-level taxes. Included in the tax provision for the three months ended March 31, 2015 are discrete tax benefits of \$7.7 million related to changes in estimates associated with our deferred tax assets.

Earnings Per Share

Weighted average basic and diluted shares of Class A common stock outstanding were higher for the three months ended March 31, 2016, compared to the three months ended March 31, 2015, as a result of stock offerings, unit exchanges, and equity award grants. See Note 11, "Earnings Per Share" in the Notes to the Unaudited Consolidated Financial Statements for further discussion of earnings per share.

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Supplemental Non-GAAP Financial Information

Our management uses non-GAAP measures (referred to as “adjusted” measures) of net income and operating income to evaluate the profitability and efficiency of the underlying operations of our business and as a factor when considering net income available for distributions and dividends. These adjusted measures remove the impact of (1) pre-offering related compensation and (2) net gain (loss) on the tax receivable agreements. These adjustments also remove the non-operational complexities of our structure by adding back non-controlling interests and assuming all income of Artisan Partners Holdings is allocated to APAM. Management believes these non-GAAP measures provide more meaningful information to analyze our profitability and efficiency between periods and over time. We have included these non-GAAP measures to provide investors with the same financial metrics used by management to manage the company.

Non-GAAP measures should be considered in addition to, and not as a substitute for, financial measures prepared in accordance with GAAP. Our non-GAAP measures may differ from similar measures used by other companies, even if similar terms are used to identify such measures. Our non-GAAP measures are as follows:

Adjusted net income represents net income excluding the impact of (1) pre-offering related compensation and (2) net gain (loss) on the tax receivable agreements. Adjusted net income also reflects income taxes assuming the vesting of all unvested Class A share-based awards and as if all outstanding limited partnership units of Artisan Partners Holdings had been exchanged for Class A common stock of APAM on a one-for-one basis. Assuming full vesting and exchange, all income of Artisan Partners Holdings is treated as if it were allocated to APAM, and the adjusted provision for income taxes represents an estimate of income tax expense at an effective rate reflecting assumed federal, state, and local income taxes. The estimated adjusted effective tax rate was 37.0% for the periods presented. Adjusted net income per adjusted share is calculated by dividing adjusted net income by adjusted shares. The number of adjusted shares is derived by assuming the vesting of all unvested Class A share-based awards and the exchange of all outstanding limited partnership units of Artisan Partners Holdings for Class A common stock of APAM on a one-for-one basis.

Adjusted operating income represents the operating income of the consolidated company excluding pre-offering related compensation.

Adjusted operating margin is calculated by dividing adjusted operating income by total revenues.

Adjusted EBITDA represents income before income taxes, interest expense and depreciation and amortization, adjusted to exclude the impact of net income attributable to non-controlling interests, pre-offering related compensation and net gain (loss) on the tax receivable agreements.

Pre-offering related compensation includes the amortization of unvested Class B common units of Artisan Partners Holdings that were granted before and were unvested at our IPO, which closed on March 12, 2013.

Net loss on tax receivable agreements represents the expense associated with the change in valuation of amounts payable under the tax receivable agreements entered into in connection with APAM’s initial public offering and related reorganization.

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The following table sets forth, for the periods indicated, a reconciliation from GAAP financial measures to non-GAAP measures:

|   | For the Three<br>Months Ended<br>March 31,<br>2016 2015<br>(unaudited; in<br>millions, except<br>per share data) |        |
|---|--|--------|
| Reconciliation of non-GAAP financial measures:  |  |        |
| Net income attributable to Artisan Partners Asset Management Inc. (GAAP)                  | \$16.3   | \$19.5 |
| Add back: Net income attributable to noncontrolling interests - Artisan Partners Holdings | 24.1   | 33.9   |
| Add back: Provision for income taxes  | 11.5   | 5.1    |
| Add back: Pre-offering related compensation - share-based awards                          | 7.8  | 10.4   |
| Add back: Net loss on the tax receivable agreements                                       | —  | 6.4    |
| Less: Adjusted provision for income taxes   | 22.1   | 27.8   |
| Adjusted net income (Non-GAAP)  | \$37.6   | \$47.5 |
| Average shares outstanding  |  |        |
| Class A common shares   | 37.0   | 32.6   |
| Assumed vesting or exchange of:   |  |        |
| Unvested Class A restricted share-based awards  | 3.4  | 3.0    |
| Artisan Partners Holdings units outstanding (noncontrolling interest)                     | 33.7   | 37.6   |
| Adjusted shares   | 74.1   | 73.2   |
| Adjusted net income per adjusted share (Non-GAAP)   | \$0.51   | \$0.65 |
| Operating income (GAAP)   | \$54.8   | \$67.8 |
| Add back: Pre-offering related compensation - share-based awards                          | 7.8  | 10.4   |
| Adjusted operating income (Non-GAAP)  | \$62.6   | \$78.2 |
| Adjusted operating margin (Non-GAAP)  | 35.8 %   | 38.4 % |
| Net income attributable to Artisan Partners Asset Management Inc. (GAAP)                  |  |        |
| Net income attributable to Artisan Partners Asset Management Inc. (GAAP)                  | \$16.3   | \$19.5 |
| Add back: Net income attributable to noncontrolling interests - Artisan Partners Holdings | 24.1   | 33.9   |
| Add back: Pre-offering related compensation - share-based awards                          | 7.8  | 10.4   |
| Add back: Net loss on the tax receivable agreements                                       | —  | 6.4    |
| Add back: Interest expense  | 2.9  | 2.9    |
| Add back: Provision for income taxes  | 11.5   | 5.1    |
| Add back: Depreciation and amortization   | 1.2  | 1.0    |
| Adjusted EBITDA (Non-GAAP)  | \$63.8   | \$79.2 |

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## Liquidity and Capital Resources

Our working capital needs, including accrued incentive compensation payments, have been and are expected to be met primarily through cash generated by our operations. The following table shows our liquidity position as of March 31, 2016, and December 31, 2015.

|   | March<br>31,<br>2016        | December<br>31, 2015 |
|---|-----------------------------|----------------------|
|   | (unaudited; in<br>millions) |                      |
| Cash and cash equivalents                       | \$217.9                     | \$ 166.2             |
| Accounts receivable                             | \$56.4                      | \$ 60.1              |
| Undrawn commitment on revolving credit facility | \$100.0                     | \$ 100.0             |

We manage our cash balances in order to fund our day-to-day operations. Accounts receivable primarily represent investment management fees that have been earned, but not yet received from our clients. We perform a review of our receivables on a monthly basis to assess collectability.

In August 2012, we issued \$200.0 million in unsecured notes and entered into the \$100.0 million five-year revolving credit facility. The notes are comprised of three series, each with a balloon payment at maturity. The fixed interest rate on each series of unsecured notes is subject to a 100 basis point increase in the event Holdings receives a below-investment grade rating and any such increase will continue to apply until an investment grade rating is received. The \$100.0 million revolving credit facility was unused as of and for the three months ended March 31, 2016.

These borrowings contain various restrictive covenants. Our failure to comply with any of the covenants could result in an event of default under the agreements, giving our lenders the ability to accelerate repayment of our obligations. We were in compliance with all debt covenants as of March 31, 2016.

## Distributions and Dividends

Artisan Partners Holdings distributions, including distributions to APAM for the three months ended March 31, 2016 and 2015, were as follows:

|  | For the<br>Three<br>Months<br>Ended<br>March 31,<br>2016 | 2015   |
|--|--|--------|
|  | (unaudited,<br>in millions)                              |        |
| Holdings Partnership Distributions         | \$19.3   | \$42.1 |
| Holdings Partnership Distributions to APAM | \$22.4   | \$37.3 |
| Total Holdings Partnership Distributions   | \$41.7   | \$79.4 |

APAM declared and paid the following dividends per share during the three months ended March 31, 2016 and 2015:

| Type of Dividend | Class of Stock | For the<br>Three<br>Months<br>Ended<br>March 31,<br>2016 | 2015   |
|------------------|----------------|--|--------|
| Quarterly        | Common Class A | \$0.60   | \$0.60 |
| Special Annual   | Common Class A | \$0.40   | \$0.95 |

Subject to board approval each quarter, we expect to pay a quarterly dividend during 2016. On April 20, 2016, our board declared a quarterly dividend of \$0.60 per share of Class A common stock payable on May 31, 2016 to

shareholders of record as of May 17, 2016.

After the end of the year, our board expects to consider paying a special dividend that will take into consideration our annual adjusted earnings, business conditions and the amount of cash we want to retain at that time. Although we expect to pay dividends according to our dividend policy, we may not pay dividends according to our policy or at all. On April 11, 2016, Artisan Partners Holdings made a distribution of \$35.1 million to holders of its partnership units, including APAM, pursuant to the partnership agreement. On April 20, 2016, we, acting as the general partner of Artisan Partners Holdings, declared a distribution of \$33.9 million, payable by Artisan Partners Holdings to holders of its partnership units, including us.

In addition to funding our normal operations, we will be required to fund amounts payable by us under the TRAs that we entered into in connection with the IPO.

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## Tax Receivable Agreements (“TRAs”)

In connection with the IPO, APAM entered into two TRAs, which resulted in the recognition of a \$601.3 million liability as of March 31, 2016. The \$601.3 million liability represents 85% of the tax benefits APAM expects to realize as a result of the merger of an entity into APAM as part of the IPO Reorganization, our purchase of partnership units from certain of our investors and the exchange by certain of our investors of their common and preferred units of Holdings for our Class A common stock or convertible preferred stock after the IPO. The estimated liability assumes no material changes in the relevant tax law and that we earn sufficient taxable income to realize all tax benefits subject to the TRAs.

The liability will increase upon future purchases of Holdings units or exchanges of Holdings units for our Class A common stock or other consideration, with the increase representing 85% of the estimated future tax benefits, if any, resulting from such purchases or exchanges. We intend to fund the payment of amounts due under the TRAs out of the reduced tax payments that APAM realizes in respect of the tax attributes to which the TRAs relate.

The actual payments, and associated tax benefits, will vary depending upon a number of factors, including the timing of purchases or exchanges by the holders of Holdings units, the price of our Class A common stock at the time of such purchases or exchanges, the extent to which such purchases or exchanges are taxable, the amount and timing of the taxable income we generate in the future and the tax rate then applicable as well as the portion of our payments under the TRAs constituting imputed interest or depreciable basis or amortizable basis. In certain cases, payments under the TRAs may be accelerated and/or significantly exceed the actual benefits we realize in respect of the tax attributes subject to the TRAs. In such cases, we intend to fund those payments with cash on hand, although we may have to borrow funds depending on the amount and timing of the payments. We expect to make total payments of approximately \$28 million in 2016 related to the TRAs, approximately \$21 million of which we paid on April 15, 2016.

## Cash Flows

|   | For the Three<br>Months Ended<br>March 31,<br>2016 2015<br>(unaudited; in<br>millions) |         |
|---|--|---------|
| Cash as of January 1                      | \$166.2  | \$182.3 |
| Net cash provided by operating activities | 111.7  | 128.7   |
| Net cash used in investing activities     | (0.7 )   | (1.4 )  |
| Net cash used in financing activities     | (59.3 )  | (94.5 ) |
| Cash as of March 31                       | \$217.9  | \$215.1 |

Operating activities provided net cash of \$111.7 million and \$128.7 million for the three months ended March 31, 2016 and 2015, respectively. The decrease in cash provided by operating activities was primarily due to decreased revenues and operating income resulting from the decline in average AUM. For the three months ended March 31, 2016, compared to the three months ended March 31, 2015, our operating income, excluding share-based and pre-offering related compensation expenses, decreased \$13.8 million.

Investing activities consist primarily of acquiring and selling property and equipment, leasehold improvements and the purchase and sale of available-for-sale securities. Investing activities used net cash of \$0.7 million and \$1.4 million for the three months ended March 31, 2016 and 2015, respectively. The decrease in net cash used in investing activities was due to a \$0.7 million decrease in acquisitions of property and equipment and leasehold improvements for the three months ended March 31, 2016, compared to the three months ended March 31, 2015.

Financing activities consist primarily of partnership distributions to non-controlling interests, dividend payments to holders of our Class A common stock, proceeds from the issuance of Class A common stock in follow-on offerings, payments to purchase Holdings partnership units, and payments of amounts owed under the tax receivable agreements. Financing activities used net cash of \$59.3 million and \$94.5 million for the three months ended March 31, 2016 and 2015, respectively. This decrease in net cash used by financing activities was primarily the result of a

\$22.8 million decrease in distributions to limited partners and a \$13.5 million decrease in dividends paid during the three months ended March 31, 2016, compared to the three months ended March 31, 2015.

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Certain Contractual Obligations

As of March 31, 2016, there have been no material changes to our contractual obligations outside the ordinary course of business from those listed in the “Certain Contractual Obligations” table and related notes to the table in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 25, 2016, except for increases in the TRA liability. As previously discussed in this report, the TRA liability increased from \$589.1 million at December 31, 2015, to \$601.3 million at March 31, 2016. Amounts payable under the TRAs will increase upon exchanges of Holdings units for our Class A common stock or sales of Holdings units to us, with the increase representing 85% of the estimated future tax benefits, if any, resulting from such exchanges or sales. The actual amount and timing of payments associated with our existing payable under the TRAs or future exchanges or sales, and associated tax benefits, will vary depending upon a number of factors as described under “Liquidity and Capital Resources.” As a result, the timing of payments by period is currently unknown. We expect to make total payments of approximately \$28 million in 2016 related to the TRAs, approximately \$21 million of which we paid on April 15, 2016.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of March 31, 2016.

Critical Accounting Policies and Estimates

There have been no updates to our critical accounting policies from those disclosed in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the year ended December 31, 2015.

New or Revised Accounting Standards

See Part I, Item 1, Unaudited Consolidated Financial Statements - Note 2, “Summary of Significant Accounting Policies.”

Item 3. Qualitative and Quantitative Disclosures Regarding Market Risk

There have been no material changes in our Quantitative and Qualitative Disclosures Regarding Market Risk from those previously reported in our Form 10-K for the year ended December 31, 2015.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow for timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) at March 31, 2016. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2016, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.



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Part II — Other Information

Item 1. Legal Proceedings

In the normal course of business, we may be subject to various legal and administrative proceedings. Currently, there are no legal or administrative proceedings that management believes may have a material effect on our consolidated financial position, cash flows or results of operations.

Item 1A. Risk Factors

For a discussion of our potential risks and uncertainties, see the information under the heading “Risk Factors” in our latest annual report on Form 10-K, which is accessible on the SEC’s website at [www.sec.gov](http://www.sec.gov).

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

As described in Note 7, “Stockholders’ Equity”, to the Unaudited Consolidated Financial Statements included in Part I of this report, upon termination of employment with Artisan, an employee-partner’s unvested Class B common units are forfeited. Generally, the employee-partner’s vested Class B common units are exchanged for Class E common units; the employee-partner’s shares of APAM Class B common stock are canceled; and APAM issues the former employee-partner a number of shares of APAM Class C common stock equal to the former employee-partner’s number of Class E common units. Class E common units are exchangeable for Class A common stock subject to the same restrictions and limitations on exchange applicable to the other common units of Holdings. There we no such issuances during the three months ended March 31, 2016.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit

| No.  | Description  |
|------|--|
| 31.1 | Certification of the Company’s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 31.2 | Certification of the Company’s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 32.1 | Certification of the Company’s Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 32.2 | Certification of the Company’s Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 101  | The following Extensible Business Reporting Language (XBRL) documents are collectively included herewith as Exhibit 101: (i) the Unaudited Condensed Consolidated Statements of Financial Condition as of March 31, 2016 and December 31, 2015; (ii) the Unaudited Consolidated Statements of Operations for the three months ended March 31, 2016 and 2015; (iii) the Unaudited Consolidated Statements of Comprehensive Income for the three months ended March 31, 2016 and 2015; (iv) the Unaudited Consolidated Statements of Changes in Stockholders’ Equity for the three months ended March 31, 2016 and 2015; (v) the Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015 (vi) the Notes to Unaudited Consolidated Financial Statements as of and for the three months ended March 31, 2016 and 2015 |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Artisan Partners Asset Management Inc.

Dated: May 3, 2016

By:

/s/ Eric R. Colson  
Eric R. Colson  
President, Chief Executive Officer and Chairman of the Board  
(principal executive officer)

/s/ Charles J. Daley, Jr.  
Charles J. Daley, Jr.  
Executive Vice President, Chief Financial Officer and Treasurer  
(principal financial and accounting officer)